

Global Data Watch

- Bounce in global growth and inflation looks to have begun early
- Global headline CPI inflation likely to rise above 3%ooya next quarter
- As EM financial conditions tighten, Brazil is the central risk
- Next week: ECB talks yields; US CPI up 0.5% but tame 0.1% core

Break a leg!

Although the global economy turned into the new year in the grips of the second wave of the pandemic, a lift-off expected to take hold this month should spark a huge bounce in growth and a material rise in inflation. After a projected slowdown in growth to below potential this quarter, we anticipate global GDP growth will surge to a 7.5% ar in the middle quarters of the year. Following last year's collapse in global core inflation to 1%ooya, we expect global inflation to rise to a 3%ooya pace next quarter, its highest level in a decade.

Incoming news suggests the bounce is beginning earlier than expected. February business surveys generally have surprised to the upside, with our global all-industry PMI output posting a 0.9pt rise to a level consistent with global GDP growth 1%-pt stronger than our 2.1% ar outlook for this quarter. Upbeat future outlook expectations have sustained strong business spending gains even as consumers sagged around the turn of the year. Moreover, our Google activity measure of mobility (GAI) took a decisive step up in the second half of February and is tracking a large 3.5%/m/m global retail sales gain. This suggests that an anticipated [March consumer spending bounce](#) may have already begun (Figure 1). Aligned with our growth forecast, the largest GAI moves have come in Europe. But mobility has also risen substantially in the US and EM Asia. This upbeat message is reinforced by this week's US employment report, which delivered a larger-than-400,000 gain in retail, leisure, and hospitality jobs last month despite depressing weather effects.

The momentum shift taking hold in inflation is equally impressive. We look for the US to deliver a third consecutive elevated monthly CPI increase next week, fueled by rising food and energy prices. Globally, the CPI is now tracking a 4% ar gain in the three months through February. With this move tracking ahead of our forecast and globally traded commodity prices still moving higher, there is upside risk to our headline CPI forecast for next quarter. The news on core inflation is more mixed. February has already delivered a partial unwind of last month's Euro area spike and we look for modest gains in next week's US and China reports. Overall, the three-month core inflation run rate is

Figure 1: JPM Google Activity Index

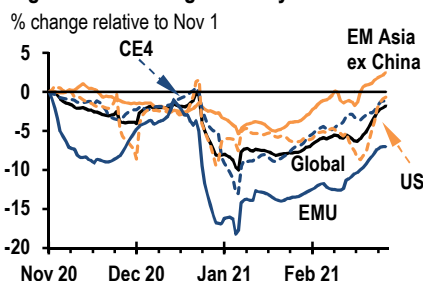
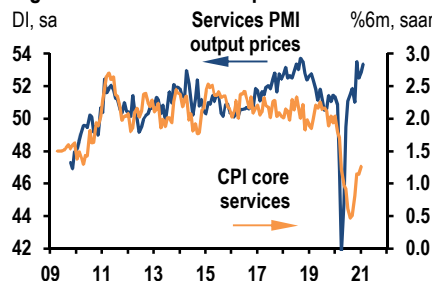


Figure 2: Global services prices



Contents

Here comes the consumer	17
US: The Treasury's trillion dollar unwind	21
US: Lessons from a year of alt data watching	23
Should Japan seek new macro policy collaboration hereafter?	26
Euro area: Core inflation set for a V-shaped ride this year	30
Italy: Low-for-long greatly helps pullback from debt overhang	32
BoE: Next rate move is probably up, but not for a while yet	34
More SDRs from the IMF can help if designed right	36
What to expect from inflation expectations in Brazil?	38
Global Economic Outlook Summary	4
Global Central Bank Watch	6
Nowcast of global growth	7
Selected recent research from J.P. Morgan Economics	9
The J.P. Morgan View: Markets	10
Data Watches	
United States	40
Euro area	47
Japan	52
Canada	56
Mexico	58
Brazil	60
Argentina	62
Chile and Colombia	64
United Kingdom	66
Emerging Europe	68
South Africa & SSA	72
Australia and New Zealand	75
China, Hong Kong, and Taiwan	77
Korea	80
ASEAN	82
India	86
Regional Data Calendars	88

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tracking close to our expectation for a 2% ar gain in February. However, there is considerable uncertainty about whether core inflation will stabilize in the coming months as we expect or rise further in response to booming consumer spending. A warning signal that we may be underestimating service sector price pressures was delivered this week as global PMI service sector output prices rose above their 2010-11 peaks (Figure 2).

While recognizing the coming bounce in growth and inflation, we continue to see this acceleration as transitory. As the fuel from pent-up demand, US fiscal stimulus, and the accompanying impetus to commodity and core consumer prices runs out, we expect to turn into 2022 with incomplete recoveries in both GDP and inflation across most economies. That said, we are increasingly confident that this expansion will generate the sustained reflationary tilt central banks have long sought. This view rests on the belief that policy stances—most notably in the US—will remain supportive and that the vaccines will remove the pandemic as a material headwind. Central to the view is the impressive private sector healing underway that reduces risks of a sustained period of caution and deleveraging that proved to be a persistent drag during the last two global expansions.

China downshifts as rest of world bounces

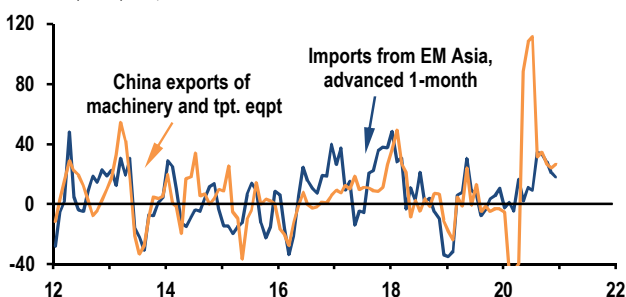
We do not expect China to join the coming surge in economic activity. External demand should provide a material boost to industry, but a removal of policy supports along with fading recovery dynamics will temper gains in domestic activity. Underscored by this week's surprising drop in the February PMI, we continue to see China's economy slowing to below-potential growth under 6% ar in 1H21 even as the rest of the world surges at a pace that is more than 3%-pts above potential. Given the numerous cross-currents buffeting China this year, this week's release of the National People's Conference economic targets for 2021 provided new insight. The working report calls for relatively modest fiscal consolidation and yet looks for conservative "above 6%" GDP growth. This compares to our 9.5%/y forecast. The government reiterated its desire to navigate a gradual normalization of policy while also assuring stability in the banking and broader lending markets in the face of last year's significant buildup of credit to less-efficient state-owned enterprises.

Mixed signals out of Asia

The disappointing February PMI report out of China conflicts with the broader message of strength across much of the rest of Asia. In contrast to the slide in China's new orders PMI, export data reported from Korea and Taiwan look well supported by continued strong global capex. In addition to re-

flecting an expected rotation in relative demand toward the DM, this development may also reflect supply chain dynamics. China's imports from EM Asia have slowed, but purchases from North Asia remain elevated boosted by capital goods (Figure 3). This likely owes to China's position at the end of the regional capex production cycle as well as concerns over supply bottlenecks in semiconductors. China's combined January-February trade data due on March 7 will be of particular interest in helping understand regional cross-currents.

Figure 3: China capital goods exports and imports from EM Asia
%3m/3m, saar, US\$ terms



Source: GAC

In Japan, mobility is on the rise despite the recent two-week extension of the state of emergency for the Tokyo metropolitan area. Consumer confidence seems to be recovering as seen in the February sentiment report. As for businesses, the latest MoF survey shows a large 5.7% ar decline in capex last quarter—a marked contrast from the GDP report of a near-20% ar surge. We are fading the signal but still expect 4Q20 capex to be marked down, reducing GDP growth 0.8%-pt to 11.9% ar. More upbeat news from this survey was a reported large recovery in profit margins. With a sizable improvement in business sentiment and new orders, the capex recovery looks likely to be sustained.

ECB to clarify rising yield concerns

With inflation still low and GDP contracting it is no surprise that the recent rise in global bond yields raises concerns. The ECB has pointed to an approach that sees "maintaining favorable financing conditions" as a key part of the transmission mechanism of monetary policy and precondition for getting inflation back to the target. At next week's meeting, we expect to get more clarity on how it defines "favorable conditions" and its effect on interventions through the PEPP program. Although we expect no explicit action, new staff forecasts will likely be used to emphasize that reflation will take time and that ECB tolerance for a tightening in financing conditions is limited. Combined with the almost €1,000bn of firepower left within the PEPP envelope, such verbal intervention can be effective. But, for this to work President

Lagarde must convey a sense of unity within the Governing Council about potential trigger points for action. This should be possible now, but will become more challenging as an expected growth boom takes hold later this year.

EMU: COVID-19-mobility link intact

Although the link between measures of mobility and GDP has weakened significantly over the winter, our Euro area growth forecast assumes a significant easing of restrictions that allows mobility to normalize by the end of the summer. Although mobility is now rising, the slow pace of vaccination, the spread of the new UK variant, and the recent rise in new infections are challenging this forecast. As vaccination programs accelerate, countries may eventually be able to tolerate some increase in new cases without hospitalizations and fatalities rising. But the recent step up in mobility has pushed the virus reproduction ratio above 1 in a number of countries. The resulting cross-currents are leading to mixed set of policy shifts. While Germany eased some restrictions this week, Italy and France have tightened. It is not clear how much intensified restrictions year-to-date have depressed activity, so nor is it clear what the scope is for a bounce in the coming months. While we remain confident that a bounce is on the horizon, the balance of risk is that there are setbacks on the path to herd immunity that generate a choppy and more uneven recovery through the rest of this year.

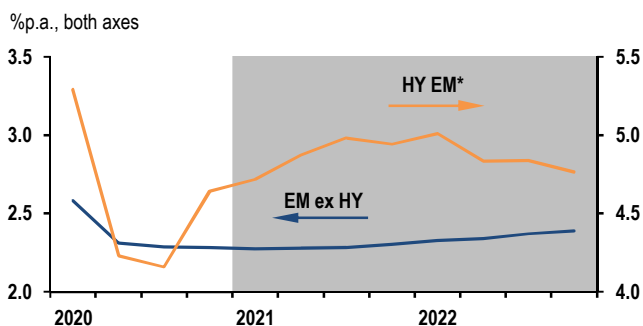
Fiscal austerity delayed in the UK

A key factor underlying 2021 upward revisions over the past six months has been a reassessment of the degree of fiscal austerity that would be imposed as the recovery gained speed with the fading virus. Owing in part to the second wave, but also to shifting policy intentions, fiscal headwinds this year have eased significantly. While this has been striking in the US, Europe also has seen its share of diminished projected fiscal drags. This week, the UK Chancellor announced a much-larger-than-expected stimulus package, including extended emergency support programs such as the wage subsidy schemes and a number of tax incentives. The additional support for this year amounted to 2.6% of GDP, 1.6%-pts more than expected and prompting a 0.9% cumulative upgrade to our GDP forecast for this year. This leaves the UK on track to return to its pre-pandemic output level by the end of the year. Fiscal support will roll off from late this year, and tax increases are planned from 2023. Given this and labor market slack, [the BoE will not be in any rush to raise rates](#). However, inflation looks set to run at or above the target from this summer onward, and we think the BoE will acknowledge that the next move in rates is probably upward. Our forecast assumes an initial tightening in early 2023.

EM pressure points most severe in Brazil

Tightening financial conditions, virus resurgence, and higher inflation have exposed pressure points in EM that are reflected in policy outlooks (Figure 4). In Brazil, a worsening of the pandemic has added to political uncertainty and rising US yields. The central bank is being forced to react and we expect a March hike. Meanwhile, persistent upside surprises in core inflation in Turkey are eroding the real interest rate buffer required to prop up the CBRT's credibility and we now expect another 100bp rate hike this month. While we continue to expect 400bp in rate cuts starting in September, risks of a delayed rate-cutting cycle or fewer rate cuts have increased. Elsewhere in EMEA EM, the National Bank of Ukraine (NBU) joined Turkey in hiking its policy rate amid rising COVID-19 cases. Despite strong capital inflows that have buoyed its currency, inflation remains elevated in the Ukraine and the NBU felt compelled to act to preserve its credibility.

Figure 4: Policy rate, EM



More broadly in EM, new case counts have been rising sharply in Latin America and EMEA EM and the risk is that the uptrend in mobility in recent weeks could stall as restrictions on activity are tightened, damping the projected growth rebound. Vaccine-based immunity, needed to sever the link between mobility and the virus, remains some time away for most EMs. The rise in EM lending rates and associated tightening in global financial conditions is an added risk for EMs with large external financing needs. That said, our overall level of concern is not that high in part because most EMs still have fiscal space and other policy tools (FX and bond market interventions) they can use to cushion any downside. Only in Brazil, where policy space is much more constrained, do we have more serious concerns about a negative dynamic taking hold.

Global economic outlook summary

	Real GDP			Real GDP						Consumer prices			
	% over a year ago			% over previous period, saar						% over a year ago			
	2020	2021	2022	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	2Q20	4Q20	2Q21	4Q21
United States	-3.5	6.2	4.0	-31.4	33.4	4.1	<u>5.0</u>	9.5	8.3	0.4	1.2	3.5↑	2.7↑
Canada	-5.4	5.9↑	4.3↓	-38.5↓	40.6↑	9.6↑	2.0↑	6.0↓	8.0	0.0	0.8	2.8	2.3
Latin America	-6.6↑	4.8	3.2	-43.3↑	51.7↓	16.9↑	-3.7↓	4.1↓	4.4	6.5	6.7	9.7	9.0
Argentina	-10.0	5.8	1.7	-50.2	61.7	<u>20.0</u>	0.0	1.0	2.0	43.8	36.3	53.5	55.0
Brazil	-4.1↑	3.2↑	2.4	-32.1↑	34.4↓	13.3↑	-5.8↓	1.6↓	4.0	2.1	4.3↑	6.8	5.1
Chile	-6.0	5.9	3.2	-43.9	22.6	<u>27.7</u>	2.0	4.0	4.0	2.9	3.0	4.0	3.5
Colombia	-6.8	5.8	4.8	-47.3	43.1	26.5	<u>-2.0</u>	6.0	4.0	2.9	1.6	1.8↑	2.7↑
Ecuador	-7.2	2.8	1.9	-36.2	19.3	<u>8.0</u>	3.2	2.5	2.5	0.6	-1.1	-1.6	0.3
Mexico	-8.2	5.6	4.1	-52.1	59.6	<u>13.7</u>	<u>-2.1</u>	9.5	6.4	2.8	3.5	4.2	3.3
Peru	-11.1	9.9	6.1	-70.4	195.3	38.1	<u>-16.0</u>	-1.0	5.0	1.7	2.2	2.0	1.9
Uruguay	-5.7	2.8	3.0	-35.5	35.2	<u>8.0</u>	0.0	0.5	2.7	10.8	9.7	6.9	7.1
Asia/Pacific	-1.2	7.8	4.6↓	8.8	24.9	13.9↑	4.5↓	5.2↑	5.6	2.0	0.7↑	1.5↑	2.2↑
Japan	-4.9	4.1	2.4	-29.3	22.7	12.7	<u>-1.0</u>	5.0	5.0	0.1	-0.8	-0.4	0.4
Australia	-2.4↑	4.2↑	2.8↓	-25.2↑	14.3↑	13.1↑	2.3↓	4.2↓	3.7↓	-0.3	0.9↑	3.4↑	2.0
New Zealand	-3.3	2.8	4.6	-37.4	68.9	<u>-8.9</u>	-4.5	5.3	6.8	1.5	0.9	1.2	1.5
EM Asia	-0.3	8.9	5.3	20.0	25.6	14.5↑	<u>5.9</u>	5.4↑	5.8	2.6	1.0	1.9↑	2.6↑
China	2.3	9.5↑	5.6	54.7	7.1	14.9	<u>6.0</u>	5.0↑	5.5	2.7	0.1	1.2↑	2.5↑
India	-8.0	13.2	4.3	-68.5	118.9	24.7	<u>11.0</u>	6.5	6.0	6.5	6.4	4.3	3.8
Ex China/India	-2.8	5.1	5.1	-22.2	23.0	<u>7.7↑</u>	<u>2.9</u>	5.7	6.4	0.1	0.5	2.2↑	2.1↑
Hong Kong	-6.1	5.2	3.6	-0.4	11.2	0.8	<u>3.9</u>	8.0	7.4↑	1.3	-0.3	1.1	2.6
Indonesia	-2.1	5.0	4.8	-24.9	14.1	10.7	<u>4.0</u>	6.0	5.0	2.3	1.6	1.7	2.1
Korea	-1.0	4.1↑	4.4	-12.0	8.8	5.0↑	<u>3.0</u>	4.0	9.0	-0.1	0.4	2.1↑	2.2↑
Malaysia	-5.6	6.8	4.9	-51.4	95.3	-1.0	<u>2.5</u>	9.0	5.0	-2.6	-1.5	2.8	1.9
Philippines	-9.5	7.0	5.7	-47.5	36.1	24.2	<u>3.6</u>	5.3	5.3	2.3	3.1	4.7	3.6
Singapore	-5.4	5.7	8.0	-43.0	41.0	15.9	<u>1.0</u>	5.0	3.0	-1.2	-0.1	0.9	0.7
Taiwan	3.1	6.2	3.6	-2.9	18.5	5.8	<u>4.0</u>	6.2	6.0	-1.0	0.0	2.2↑	1.8
Thailand	-6.1	4.3	7.8	-32.7	27.3	5.4	<u>0.0</u>	6.2	5.0	-2.7	-0.4	3.1	1.3
Western Europe	-7.1	5.7↑	5.0↓	-41.4	61.6	-1.1	<u>-3.1</u>	14.6	10.2↑	0.3	-0.1	1.9	2.3
Euro area	-6.8	5.7	4.8	-39.2	59.9	-2.4	<u>-1.0</u>	13.0	8.5	0.2	-0.3	1.9	2.3
Germany	-5.3	4.7	4.6	-33.5	38.6	1.4	<u>-5.0</u>	17.5	7.0	0.7	-0.6	2.6	3.8
France	-8.2	7.3	4.0	-44.0	96.9	-5.7	<u>4.5</u>	8.0	6.0	0.3	0.1	1.5	1.5
Italy	-8.9	6.4↑	5.3	-42.7↑	80.3↓	-7.5↑	<u>1.5</u>	11.0	10.0	-0.2	-0.4	1.0	1.5
Spain	-11.0	6.6	7.4	-54.5	83.7	1.6	<u>-2.0</u>	10.0	15.0	-0.6	-0.8	2.1	2.7
Norway	-3.1	4.1	3.4	-21.7	21.6	7.8	<u>-0.5</u>	5.0	5.5	1.1	1.3	2.4	2.6
Sweden	-3.0	3.3	3.7	-27.0	28.3	-1.0	<u>-0.5</u>	7.5	6.5	0.1	0.6	1.9	1.2
United Kingdom	-9.9	6.0↑	6.7↓	-57.0	81.9	4.0	<u>-14.0</u>	25.0	19.9↑	0.7	0.6	1.9↓	2.4
EMEA EM	-2.7	4.3↑	4.1↑	-33.1↓	41.6↑	4.8↓	-0.1↑	5.7↑	4.5↑	4.1	4.9	5.7↑	4.9↑
Czech Republic	-5.6↑	4.6↓	5.2	-30.5↓	31.6↑	2.4↑	0.0↓	8.0	8.0	3.1	2.6	1.9	2.0
Hungary	-5.0↑	5.2	6.0	-46.5↑	51.7↓	5.6↑	<u>-2.5</u>	9.5	8.5	2.5	2.8	3.7	3.7
Israel	-2.3	6.6	5.5	-29.9	41.5	6.3	<u>2.8</u>	8.7	5.7	-1.1	-0.7	0.9	1.0
Poland	-2.7	4.2	6.1	-25.2	35.5	-2.8	<u>-0.9</u>	9.8	8.7	3.2	2.8	2.5	3.0
Romania	-3.9	6.0	6.5	-40.6	26.7	22.9	<u>-2.5</u>	6.1	9.5	2.5	2.1	3.0↑	3.7
Russia	-3.1	3.1	2.8	-29.0	24.0	<u>2.3</u>	2.0	5.5	3.0	3.1	4.5	4.7	4.0
South Africa	-6.7	4.3	2.2	-51.7	66.1	<u>12.0</u>	-1.5	3.0	2.0	2.4	3.2	4.6	4.1
Turkey	1.8↓	4.8↑	4.1↑	-37.2↓	80.7↑	6.9↓	-3.9↑	0.8↑	1.3↑	11.7	13.5	15.7↑	12.5↑
Global	-3.6	6.5↑	4.4↓	-19.6	38.1	<u>7.5↑</u>	2.2↑	8.4↓	7.2↑	1.5	1.3↑	2.9↑	2.9↑
Developed markets	-5.0	5.7	4.2	-34.9	42.4	<u>3.6↑</u>	1.2↑	10.6↓	8.5↑	0.3	0.5	2.4	2.3↑
Emerging markets	-1.5	7.6	4.8	3.3↑	31.7↑	13.4↑	3.7	5.2↑	5.4	3.4	2.4	3.5↑	3.8↑
Emerging ex China	-4.6↑	6.2	4.2	-38.4↑	51.5	12.3↑	1.8↓	5.4↓	5.3	3.9↑	4.3↑	5.4↑	4.9↑
Global — PPP weighted	-3.4	7.0	4.5	-18.4	39.4	<u>9.1↑</u>	3.0	7.8↓	6.8	2.0	1.6	2.8↑	2.8↑

Note: For some emerging economies seasonally adjusted GDP data are estimated by J.P. Morgan. Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Regional CPI aggregates exclude Argentina and Ecuador. Source: J.P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

G-3 economic outlook detail

				2020			2021				2022
	2020	2021	2022	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
United States											
Real GDP	-3.5	6.2	4.0	-31.4	33.4	4.1	5.0	9.5	8.3	3.0	3.5
Private consumption	-3.9	7.2	4.3	-33.2	41.0	2.4	5.3	11.5	9.5	5.8	2.8
Equipment investment	-5.0	16.8	6.1	-35.9	68.2	25.7	19.0	10.0	9.0	9.0	6.0
Non-residential construction	-10.6	-2.6	6.4	-33.6	-17.4	1.1	3.0	3.0	5.0	6.0	8.0
Intellectual property products	1.6	7.4	8.5	-11.4	8.4	8.4	9.0	9.0	9.0	9.0	9.0
Residential construction	6.0	19.4	6.2	-35.6	63.0	35.8	20.0	14.0	12.0	7.0	5.0
Inventory change (\$ bn saar)	-80.9	104.6	49.0	-287.0	-3.7	48.0	42.6	105.6	178.1	92.1	76.4
Government spending	1.1	-0.4	4.6	2.5	-4.8	-1.1	-0.2	0.4	0.4	3.4	6.9
Exports of goods and services	-13.0	5.9	4.8	-64.4	59.6	21.8	6.3	4.2	4.4	4.3	5.5
Imports of goods and services	-9.3	15.5	7.3	-54.1	93.1	29.6	10.0	12.0	12.0	10.0	6.5
Domestic final sales contribution	-2.6	6.6	4.8	-28.5	30.1	4.5	6.1	9.8	8.3	6.0	4.4
Inventories contribution	-0.7	1.0	-0.3	-3.5	6.6	1.1	-0.1	1.3	1.5	-1.7	-0.3
Net trade contribution	-0.2	-1.4	-0.5	0.6	-3.2	-1.6	-1.0	-1.6	-1.6	-1.3	-0.6
Consumer prices (%oya)	1.3	2.7	2.1	0.4	1.3	1.2	1.9	3.5	2.7	2.7	2.2
Excluding food and energy (%oya)	1.7	1.7	2.1	1.3	1.7	1.6	1.4	2.2	1.6	1.7	1.9
Core PCE deflator (%oya)	1.4	1.8	1.8	1.0	1.4	1.4	1.6	2.2	1.7	1.8	1.6
Federal budget balance (% of GDP, FY)	-15.0	-16.3	-9.9								
Personal saving rate (%)	16.1	14.4	7.4	26.0	15.7	13.0	20.7	16.7	12.9	7.5	7.3
Unemployment rate (%)	8.1	5.2	3.8	13.1	8.8	6.8	6.1	5.4	4.8	4.5	4.1
Industrial production, manufacturing	-6.7	7.6	2.8	-46.5	56.3	11.2	6.5	8.0	5.8	2.8	2.0
Euro area											
Real GDP	-6.8	5.7	4.8	-39.2	59.9	-2.4	-1.0	13.0	8.5	5.5	4.0
Private consumption	-8.0	4.6	4.8	-41.2	68.5	-12.0	1.0	10.0	12.0	5.0	3.5
Capital investment	-9.1	3.9	6.3	-50.0	66.8	-9.0	2.0	8.0	10.0	10.0	5.0
Government consumption	1.1	4.5	2.1	-8.6	20.8	5.0	3.0	3.0	2.0	2.0	2.0
Exports of goods and services	-10.4	7.5	4.6	-56.8	85.9	3.0	2.0	14.0	11.0	3.0	3.0
Imports of goods and services	-10.0	5.7	4.9	-55.2	58.6	3.0	2.0	15.0	10.0	3.0	3.5
Domestic final sales contribution	-6.1	4.2	4.3	-34.8	55.1	-7.7	1.6	7.9	8.7	5.1	3.3
Inventories contribution	-0.1	0.5	0.4	-0.9	-5.0	5.2	-2.7	5.0	-1.0	0.3	0.8
Net trade contribution	-0.6	1.0	0.1	-3.6	9.7	0.1	0.1	0.2	0.8	0.1	-0.1
Consumer prices (HICP, %oya)	0.3	1.9	1.1	0.2	0.0	-0.3	1.1	1.9	2.1	2.3	1.1
ex food, alcohol and energy	0.7	1.3	1.0	0.9	0.6	0.2	1.1	1.1	1.3	1.6	0.9
General govt. budget balance (% of GDP, FY)	-9.2	-6.5	-3.7								
Unemployment rate (%)	8.0	8.9	8.6	7.6	8.6	8.3	8.8	8.9	8.9	8.9	8.8
Industrial production	-8.4	8.0	4.0	-49.7	82.9	16.6	0.0	5.0	5.0	5.0	4.0
Japan											
Real GDP	-4.9	4.1	2.4	-29.3	22.7	12.7	-1.0	5.0	5.0	3.0	2.0
Private consumption	-6.0	3.1	2.9	-29.5	22.0	8.9	-4.0	7.0	6.0	4.0	2.5
Business investment	-6.0	3.3	5.2	-21.5	-9.2	19.4	3.0	2.0	9.0	8.0	5.0
Residential construction	-7.0	-1.7	1.0	2.0	-21.0	0.2	3.0	1.0	1.0	1.0	1.0
Public investment	3.6	3.0	0.8	9.2	3.6	5.5	1.0	2.0	2.0	2.0	1.0
Government consumption	2.7	3.4	-0.4	0.9	11.7	8.1	2.0	0.0	0.0	0.0	0.0
Exports of goods and services	-12.4	13.9	7.8	-52.9	33.2	52.3	10.0	10.0	15.0	10.0	8.0
Imports of goods and services	-6.8	5.0	9.4	5.1	-29.0	17.3	6.0	10.0	15.0	15.0	10.0
Domestic final sales contribution	-3.8	3.1	2.4	-17.9	12.4	10.0	-1.1	4.2	4.7	3.5	2.2
Inventories contribution	0.0	-0.4	0.2	1.3	-1.4	-1.9	-0.6	0.8	0.2	0.2	0.1
Net trade contribution	-1.1	1.5	-0.2	-12.6	11.8	4.6	0.7	0.1	0.1	-0.8	-0.3
Consumer prices (%oya)	0.0	-0.1	0.2	0.1	0.2	-0.8	-0.4	-0.4	0.1	0.4	0.0
ex food and energy	-0.1	-0.2	-0.2	0.0	-0.1	-0.5	0.0	-0.8	-0.1	0.0	-0.2
General govt. net lending (% of GDP, CY)	-11.5	-10.8	-6.3								
Unemployment rate (%)	2.8	3.0	2.8	2.8	3.0	3.0	3.1	3.0	3.0	2.9	2.9
Industrial production	-10.3	11.3	3.1	-52.3	39.9	26.8	15.5	11.0	10.0	2.0	2.0
Memo: Global industrial production	-5.4	9.1	3.8	-25.5	69.0	13.0	4.2	7.2	5.9	3.9	0.0
%oya				-13.9	-3.6	-0.2	4.3	19.4	7.4	5.2	0.0

Note: More forecast details for the G-3 and other countries can be found on J.P. Morgan's Morgan Markets client web site. Source: J.P. Morgan

Global Central Bank Watch

		Official rate	Current rate (%pa)	4-qrtr change (bp)		Last change	Next mtg	Forecast next change	Forecast (%pa)				
				Last	Next				Mar 21	Jun 21	Sep 21	Dec 21	Mar 22
Global			1.18	-68	1				1.19	1.21	1.23	1.22	1.24
excluding US			1.53	-24	2				1.55	1.58	1.60	1.60	1.62
Developed			-0.02	-71	0				-0.02	-0.02	-0.02	-0.02	-0.02
Emerging			3.02	-69	4				3.07	3.12	3.15	3.15	3.19
Latin America			2.41	-243	15				2.56	2.95	3.44	3.97	4.21
EMEA EM			4.92	-21	16				5.08	5.08	4.91	4.41	4.36
EM Asia			2.75	-48	0				2.75	2.75	2.75	2.75	2.77
The Americas			0.56	-121	2				0.59	0.64	0.71	0.79	0.83
United States	Fed funds		0.25	-100	0	15 Mar 20 (-100bp)	17 Mar 21	On hold	0.25	0.25	0.25	0.25	0.25
Canada	O/N rate		0.25	-100	0	27 Mar 20 (-50bp)	10 Mar 21	On hold	0.25	0.25	0.25	0.25	0.25
Brazil	SELIC O/N		2.00	-225	50	5 Aug 20 (-25bp)	17 Mar 21	Mar 21 (+50bp)	2.50	3.50	4.50	5.50	6.00
Mexico	Repo rate		4.00	-302	-25	11 Feb 21 (-25bp)	25 Mar 21	Mar 21 (-25bp)	3.75	3.50	3.50	3.50	3.50
Chile	Disc rate		0.50	-125	0	31 Mar 20 (-50bp)	30 Mar 21	4Q 21 (+25bp)	0.50	0.50	0.50	0.75	0.75
Colombia	Repo rate		1.75	-250	0	25 Sep 20 (-25bp)	26 Mar 21	3Q 21 (+25bp)	1.75	1.75	2.00	2.50	2.50
Peru	Reference		0.25	-200	0	9 Apr 20 (-100bp)	11 Mar 21	1Q 22 (+25bp)	0.25	0.25	0.25	0.25	0.50
Europe/Africa			0.72	-38	3				0.75	0.75	0.72	0.62	0.61
Euro area	Depo rate		-0.50	0	0	12 Sep 19 (-10bp)	11 Mar 21	On hold	-0.50	-0.50	-0.50	-0.50	-0.50
United Kingdom	Bank rate		0.10	-65	0	19 Mar 20 (-15bp)	18 Mar 21	On hold	0.10	0.10	0.10	0.10	0.10
Norway	Dep rate		0.00	-150	0	7 May 20 (-25bp)	18 Mar 21	1Q 22 (+25bp)	0.00	0.00	0.00	0.00	0.25
Sweden	Repo rate		0.00	0	0	19 Dec 19 (+25bp)	27 Apr 21	On hold	0.00	0.00	0.00	0.00	0.00
Czech Republic	2-wk repo		0.25	-200	0	7 May 20 (-75bp)	24 Mar 21	4Q 21 (+25bp)	0.25	0.25	0.25	0.50	0.50
Hungary	Base rate		0.60	-30	0	21 Jul 20 (-15bp)	23 Mar 21	On hold	0.60	0.60	0.60	0.60	0.60
Israel	Base rate		0.10	-15	0	6 Apr 20 (-15bp)	19 Apr 21	On hold	0.10	0.10	0.10	0.10	0.10
Poland	7-day interv		0.10	-140	0	28 May 20 (-40bp)	7 Apr 21	4Q 22 (+15bp)	0.10	0.10	0.10	0.10	0.10
Romania	Base rate		1.25	-125	-25	15 Jan 21 (-25bp)	-	Mar 21 (-25bp)	1.00	1.00	1.00	1.00	1.00
Russia	Key pol rate		4.25	-175	0	24 Jul 20 (-25bp)	19 Mar 21	1Q 22 (+25bp)	4.25	4.25	4.25	4.25	4.50
South Africa	Repo rate		3.50	-275	0	23 Jul 20 (-25bp)	25 Mar 21	Mar 22 (+25bp)	3.50	3.50	3.50	3.50	3.75
Turkey	1-wk repo		17.00	625	100	24 Dec 20 (+200bp)	18 Mar 21	Mar 21 (+100bp)	18.00	18.00	17.00	14.00	13.00
Asia/Pacific			2.10	-40	-1				2.10	2.10	2.10	2.09	2.11
Australia	Cash rate		0.25	-25	-15	19 Mar 20 (-25bp)	6 Apr 21	On hold	0.10	0.10	0.10	0.10	0.10
New Zealand	Cash rate		0.25	-75	0	15 Mar 20 (-75bp)	14 Apr 21	Nov 21 (-25bp)	0.25	0.25	0.25	0.00	0.00
Japan	Pol rate IOER¹		-0.10	-6	0	28 Jan 16 (-20bp)	19 Mar 21	On hold	-0.10	-0.10	-0.10	-0.10	-0.10
Hong Kong	Disc. wndw		0.50	-100	0	3 Mar 20 (-50bp)	-	On hold	0.50	0.50	0.50	0.50	0.50
China	1-yr MLF		2.95	-20	0	15 Apr 20 (-20bp)	-	On hold	2.95	2.95	2.95	2.95	2.95
Korea	Base rate		0.50	-75	0	28 May 20 (-25bp)	15 Apr 21	1Q 22 (+25bp)	0.50	0.50	0.50	0.50	0.75
Indonesia	BI RRR		3.50	-125	0	18 Feb 21 (-25bp)	18 Mar 21	On hold	3.50	3.50	3.50	3.50	3.50
India	Repo rate		4.00	-115	0	22 May 20 (-40bp)	7 Apr 21	On hold	4.00	4.00	4.00	4.00	4.00
Malaysia	O/N rate		1.75	-75	0	7 Jul 20 (-25bp)	6 May 21	On hold	1.75	1.75	1.75	1.75	1.75
Philippines	Rev repo		2.00	-175	0	19 Nov (-25bp)	25 Mar 21	On hold	2.00	2.00	2.00	2.00	2.00
Thailand	1-day repo		0.50	-50	0	20 May 20 (-25bp)	24 Mar 21	On hold	0.50	0.50	0.50	0.50	0.50
Taiwan	Official disc.		1.125	-25	0	19 Mar 20 (-25bp)	18 Mar 21	On hold	1.13	1.13	1.13	1.13	1.13

Source: J.P. Morgan. ¹ BoJ sets the policy rate on IOER (O/N) and targets 10-year JGB yields as policy guidance. Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week. Aggregates are GDP-weighted averages. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

Nowcast global GDP 1Q: Feb data bolster upside risk

We have flagged upside risk to current-quarter growth for a while. This week, our estimate for 1Q ticks up to 2.2% ar but further upside remains (Figure 1). The sense of upside risk comes from a broad range of data including goods sector activity, surveys, and mobility metrics. While we admittedly do not have much data covering the services sector, which has been the principal source of weakness through the second wave, upside surprises in goods sector data correctly signaled upside risk to 4Q GDP growth. The message from data this week further underscores this view. The global all-industry PMI moved up in February with the services index nearly reaching its pre-second-wave high. At the same time, a healthy rise in global mobility suggests the springtime growth pickup may be here earlier than expected. On the week, 1Q GDP growth edged up owing to upward revisions to growth in Canada and Turkey.

Figure 1: J.P. Morgan global GDP

% change saar

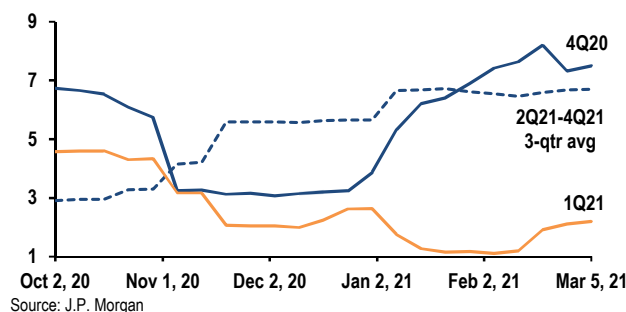
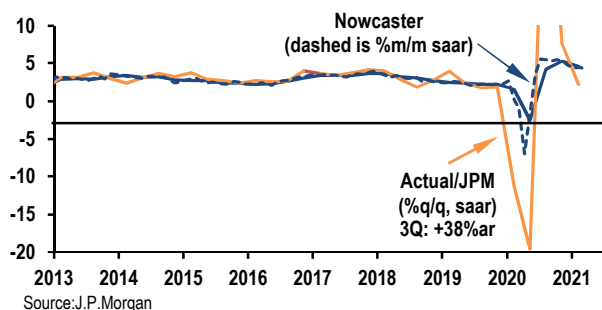


Figure 2: Global real GDP

%q/q, saar; J.P. Morgan projection and Nowcaster through 1Q21



Our top-down global nowcaster for tracking 1Q global growth edged up 0.1%-pt to 4.6% ar at this week (Figure 2). The top-down nowcaster projects a much stronger reading than our 2.2% ar official forecast, even after recent revisions that raised our current-quarter forecast by 1.1% ar over the past month. The nowcaster sent the right signal of upside risk through all of 4Q20. By contrast, the aggregate of our bottom-up nowcasters sits below the official forecast with a reading of 1.5% ar (Ta-

ble 1). Although the majority of our country-level nowcasters suggest upside risk, for the three largest economies the nowcaster projects slower growth than the official outlook (Figure 3). The China nowcaster points to a 1.6% ar gain this quarter against our 6% ar forecast. The risk bias in the US and Euro area is smaller than in China but still negative.

Table 1: Real GDP

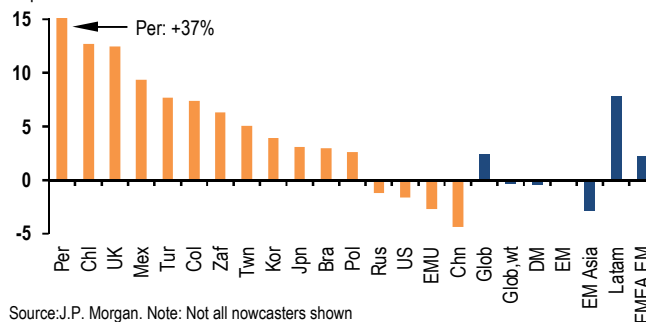
%q/q, saar. Underline indicates J.P. Morgan forecast

	4Q20		1Q21	
	Actual/Fcst	Nowcast	Forecast	Nowcast
Global	<u>7.5</u>	5.2	<u>2.2</u>	4.6
Weighted Avg*	<u>6.7</u>	7.1	<u>1.8</u>	1.5
Developed*	<u>3.3</u>	5.6	<u>1.2</u>	0.8
US	4.1	7.3	<u>5.0</u>	3.4
EMU	-2.4	1.4	<u>-1.0</u>	-3.7
UK	<u>4.0</u>	-1.2	<u>-14.0</u>	-1.5
Canada	9.6	5.0	<u>2.0</u>	2.3
Japan	12.7	13.4	<u>-1.0</u>	2.1
Emerging*	<u>12.8</u>	9.7	<u>2.9</u>	2.7
EM Asia*	<u>13.6</u>	8.6	<u>5.5</u>	2.7
China	14.9	8.9	6.0	1.6
Korea	5.0	7.2	<u>3.0</u>	6.9
Taiwan	5.8	5.7	<u>4.0</u>	9.0
Singapore	15.9	5.7	<u>1.0</u>	12.5
Latam*	<u>17.3</u>	15.2	<u>-3.9</u>	3.9
Brazil	13.3	9.6	<u>-5.8</u>	-2.9
Mexico	13.7	15.9	<u>-2.1</u>	7.2
Argentina	<u>20.0</u>	14.2	<u>0.0</u>	5.3
Chile	<u>27.7</u>	22.8	<u>2.0</u>	14.7
Colombia	26.5	24.1	<u>-2.0</u>	5.4
Peru	38.1	35.3	<u>-16.0</u>	21.4
EMEA EM*	<u>4.6</u>	8.7	<u>-0.4</u>	1.8
Poland	-2.8	9.3	<u>-0.9</u>	1.7
Hungary	5.6	3.3	<u>-2.5</u>	3.3
Czech Rep.	2.4	3.3	<u>0.0</u>	-1.7
Romania	22.9	13.0	<u>-2.5</u>	2.4
Russia	<u>2.2</u>	6.5	<u>2.0</u>	0.8
Turkey	6.9	9.5	<u>-3.9</u>	3.7
South Africa	<u>12.0</u>	19.4	<u>-1.5</u>	4.8

* Aggregates are GDP weighted averages of constituents. Source: J.P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China); and Taiwan (China).

Figure 3: Risk bias, 1Q21

%-pts. Nowcast minus forecast



We reported the global all-industry February PMI this week. Encouragingly, both the manufacturing and services indexes moved up to healthy levels on the month (Table 2). The rise

in the services index was especially encouraging as the sector has been disproportionately impacted by activity restrictions. At 52.2 the global all-industry PMI points to 3% ar GDP growth, a bit higher than our latest forecast at 2.2%. We also updated our global mobility metrics through the end of February. The message here is encouraging: mobility has turned up following a big drop around year-end. The increase has been broadly based, but was more pronounced in Western Europe. The rise in mobility is a positive development for Western Europe as the region has experienced the biggest hit to activity during the second wave.

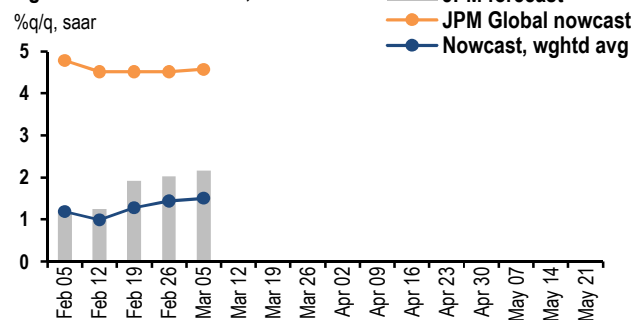
Table 2: J.P. Morgan global aggregates

%ch, sa (ar for qrt). PMIs are levels. Confidence is st.dev from 2010-pres avg

	4Q20	1Q21	Dec20	Jan21	Feb21	Mar21
PMI, mfg	54.9	54.2	54.9	54.1	54.2	54.4
PMI, serv	52.3	52.6	51.8	51.6	52.8	53.3
IP	14.9	11.9	0.4	<u>1.1</u>	1.1	1.1
Retail sales	4.1	0.4	-0.6	<u>0.2</u>	0.8	0.6
Auto sales	10.1	-8.4	4.2	-5.9	2.3	0.1
G-3 cap. ship.	25.9	10.1	-0.2	1.4	0.8	1.0
G-3 cap. orders	30.5	15.7	1.9	0.9	1.3	1.1
Cap. imports	35.1	27.4	1.4	1.8	1.6	1.6
Bus conf	0.1	0.5	0.2	0.2	0.7	0.6
Cons conf	-0.4	-0.4	-0.4	-0.5	-0.4	-0.4
Nowcast (ar)	5.3	4.6	4.8	4.3	4.4	4.4

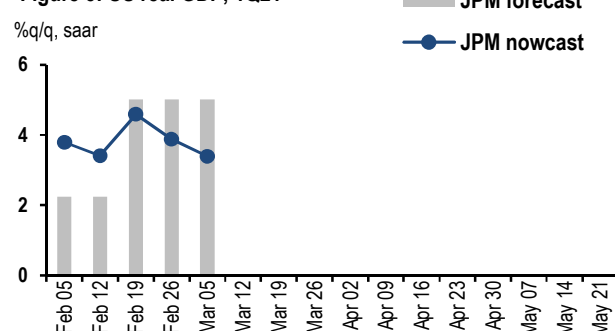
Note. Shaded values show forecasts computed by the Kalman filter estimates from the dynamic factor model. Underlined values are our estimates based on available data and our judgment. Source: J.P. Morgan, Markit, and national statistical agencies.

Figure 4: Global real GDP, 1Q21



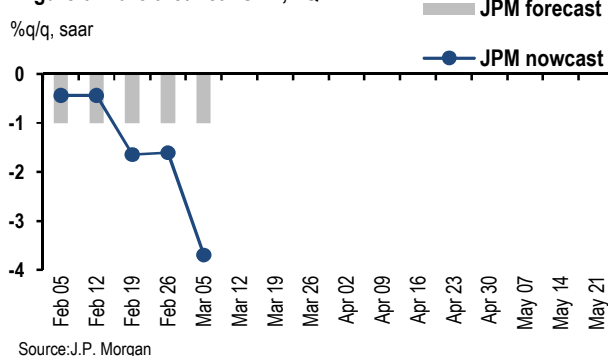
Source: J.P. Morgan

Figure 5: US real GDP, 1Q21



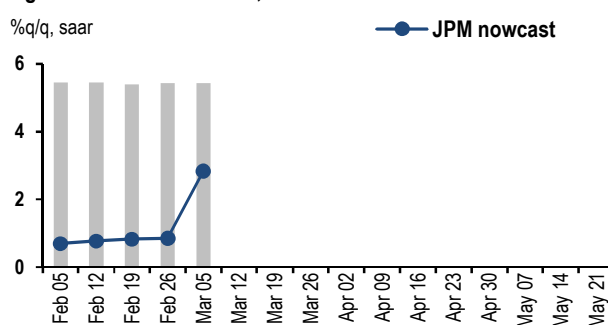
Source: J.P. Morgan

Figure 6: Euro area real GDP, 1Q21



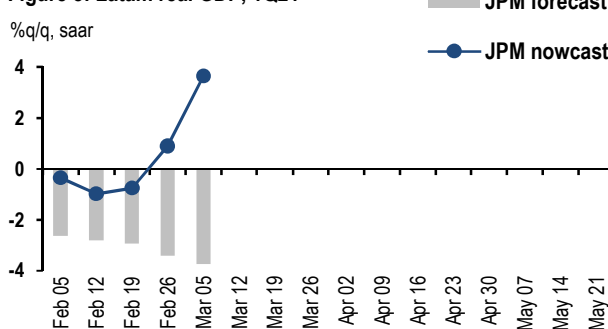
Source: J.P. Morgan

Figure 7: EM Asia real GDP, 1Q21



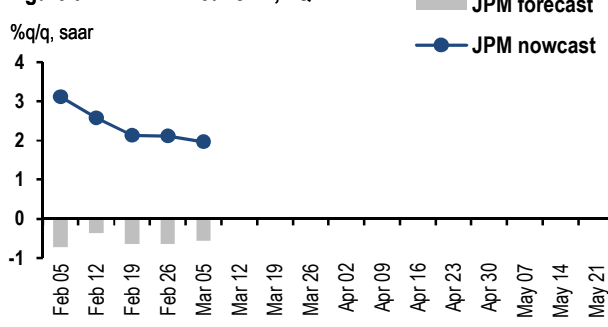
Source: J.P. Morgan

Figure 8: Latam real GDP, 1Q21



Source: J.P. Morgan

Figure 9: EMEA EM real GDP, 1Q21



Source: J.P. Morgan

* For primer on various Nowcasters, click here: [Global](#), [US](#), [EMU](#), [UK](#), [Japan](#), [EM](#).

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 Latam COVID-19 cases creep back up, but will activity stall? Jan 8, 2021
 Brazil and Mexico: A tale of two policy approaches, Oct 30, 2020
 Mexico: The domestic side of financial stability, Oct 30, 2020
 Brazil: Reading BCB's communication with natural language processing, Oct 23, 2020

Special Reports and Global Issues

Ten questions about China in 2021, Jan 8, 2021
 Japan 2021 Outlook: If winter comes, can spring be far behind? Nov 25, 2020
 Down, up, and a way to go: 2021 global economic outlook, Nov 24, 2020
 The 2021 US Economic Outlook: The needle and the damage undone, Nov 20, 2020
 The election and the US-China great power conflict, Oct 14, 2020
 Out of China and its repercussions, Sep 24, 2020
 Economic Issues for the 2020 US Elections, Sep 17, 2020
 Global Outlook: You can't always get what you need, Jul 1, 2020
 Rocking the boat with alternative data: Introducing the JPM BIDS trade tracker, Feb 20, 2020

The J.P. Morgan View

Answers to the questions everyone's asking about an unruly bond market

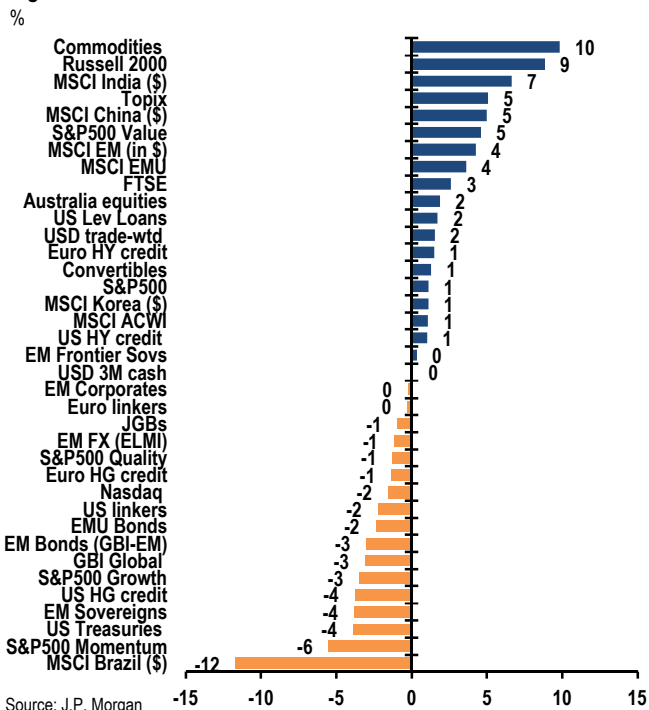
- **Cross-asset strategy:** The disorderly rise in US rates that took over from an orderly one in mid-February is extending into March, in turn adding the S&P500 and Nasdaq to the list of markets with slightly low or negative returns this year. Those that have been swimming au naturel this winter have been left the most exposed as the tide goes out (crypto, innovation stocks, SPACS, green energy). Amidst these increasingly volatile and broad market declines, five questions arise most often in client discussions so are answered here: (1) what's the path for inflation; (2) can Bonds stabilize on cheap valuations, short positioning or Fed intervention; (3) do rising US rate crush any hope of EM outperformance this cycle; (4) what level of rates harms the economy and Equities; and (5) what's the best real asset for hedging higher inflation.
- **New trades:** Bought US HG Credit protection vs US Rate vol ([Dulake](#)); bought LQD June put spreads ([Quigg](#)); identified dislocated EM Sovereigns ([Nguyen](#)); bought Euro-Stoxx Dec-23 bullish risk reversals and Stoxx up/Euro rates down dual digital ([Silvestrini](#)); updated Equity Analyst Focus Lists in US ([Rosato](#)) and Europe ([EMEA Equity Research](#)).
- **Must-read reports:** [Takeaways from JPM Macro Quantitative & Derivatives Conference](#) (Kolanovic); [Takeaways from JPM EM Corporate Conference](#) (Hong); [FAIT and Fedspeak](#) (Feroli); [Hurdles for EM Sovereign ESG strategies](#) (Oganes); [Empirical models of long-term Equity returns](#) (Kundu); [Lessons from a year of alt data watching](#) (Edgerton).
- **Economics:** This week's PMIs affirm the global economy's resilience to COVID-19 waves but should also raise anxieties about near-term inflation. The global output reading has nearly returned to its prior October peak, with DMs beating EMs and the US leading Europe and Japan. Within price components, the most interesting internal was the surge in services input prices, which suggests that a material pop in output price is in the offing (see [JPM Global All-Industry PMI: Upside to growth and to services inflation](#) by Lupton). The JPM forecast anticipates this move, but frames it as transitory volatility rather than trend. So should the Fed. Given that money markets are pricing an early Fed liftoff but TIPS markets are not pricing an inflation over-

shoot, either investors doubt the Fed or don't understand it (see [FAIT and Fedspeak](#) by Feroli).

- **Equities:** Equities will be able to absorb the repricing of bond yields but the US will not be the leader this year as bond yields rise ([Matejka](#)).
- **Bonds:** Markets likely to struggle to price in an even earlier Fed hike. Take profit on tactical longs in 5Y UST and stay neutral duration ([Barry](#)).
- **Credit:** There is a case for positioning for mean reversion between credit spreads and interest rates volatility ([Dulake](#)).
- **Currencies:** CNY year-end forecast revised higher to 6.35 ([Wang](#)). Maintain petro FX longs as the best expression of global deflation.
- **Commodities:** OPEC+ was a bullish surprise for markets. Forecasts are revised higher. Brent should climb to \$74bbl by the end of 2021 ([Kaneva](#)).
- **Catalysts next week:** [China trade balance](#) (Mar 7th); US CPI, [China CPI/PPI](#) & BoC (Mar 10th); [ECB](#) (Mar 11th); US consumer confidence. (Mar 12th).
- **JPM View video** (Normand, Matejka, Chaudhry): [click here to watch](#).

[This excerpt of The J.P. Morgan View has been adapted for Global Data Watch.](#)

Figure 1: Year-to-date returns



The disorderly rise in US rates that took over from an orderly one in mid-February is extending into March, in turn adding the S&P500 and Nasdaq to the list of markets with low or negative returns this year ([chart 1](#)). As volatility rises, one of the few, typical reflation trades that continues to deliver consistently (alongside Value rotation in Equities) is Oil, because OPEC+'s supply management remains more important for this market than interest rate or FX contagion. The cartel's decision this week to forego a +1mbd output increase means that the oil market will tighten more quickly than we previously thought, and thus we have raised the year-end Brent forecast from \$71/bbl to \$74/bbl (see [Oil Markets Weekly](#) by Kaneva). That price target already appears to be discounted in US HY Energy Credit, US 10Y inflation breakevens and some petro-currencies (CAD, NOK), but it's not yet in Energy Equities nor in the Russian ruble ([chart 2](#)). Indeed, not even the current \$69/bbl oil price is in RUB, partly due to concerns about US-Russia relations under Biden and partly due to broad deleveraging in EM FX over the past few weeks.

The Fed hasn't described recent market moves as concerning, because it's looking through a wider lens that captures multiple asset prices and liquidity measures over a longer horizon, and judges them against macroeconomic conditions. Indeed, investors with the luxury of thinking in terms of multi-quarter reflationary cycles rather than year-to-date P-n-L might not be alarmed either. Since US 10Y rates bottomed in early August, the +100bp rise in nominal rates and +40bp increases in real rates have been typical for business cycle upturns. So have been all cross-asset trends over the past seven months, such as higher prices on Equities and on Commodities ex Gold; tighter spreads on DM & EM Credit; outperformance of Cyclical and Value stocks; declines in Gold; and dispersion within Currencies (FX performance when US rates rise is much less consistent than the behavior of other markets). If anything, Equities have rallied and spreads have tightened about twice as much since August compared to what usually occurs during a major bond market sell-off (performance table by reflationary episode available on request). So the simplest label for has been occurring over the past few weeks is **payback** for an overshoot.

More ominous terms are "credibility problem" or "regime change", both of which are linked to the path for US inflation and how the Fed responds to it. Recall the core elements of the Fed's rhetoric, its policy statements and its summary of economic projections during the past year of extraordinary monetary and fiscal easing: the economy needs to make substantial further progress towards full employment and price stability to justify tapering; core PCE needs to overshoot 2% for perhaps a year to justify tightening; any near-term rise in inflation as the economy booms will be transitory

and looked through by the FOMC; the Fed will give ample warning before tapering; and they Fed doesn't project any hikes until after 2023.

The bond market's no longer buying those arguments, whether due to a broadening appreciation of the Biden Administration's fiscal ambitions or the growing evidence of pipeline inflation pressures (see for example the internals of this week's [global services PMIs](#)). There is no real-time way to track tapering expectations, but the steepness of the money market curve shows expectations of two hikes by end-2023, and about four hikes by end-2024 ([chart 3](#)). Hence the same credibility problem the Fed faced in 2013 when it said that tapering wasn't tightening, yet the money market priced in the first hikes by end-2014 and several hikes by end-2015.

A rates repricing this large and from such low starting levels also represents a regime change to anyone who has been valuing markets or allocating capital on the assumption that US rates would remain low for several years. Hence why the greatest casualties of the past month's bond market sell-off have been the ones with the highest valuations, the most price momentum and the most imaginative investment thesis. Thus cryptocurrencies (XBT), innovation stocks (ARK), green energy (TAN), SPACS (IPO SPAC) and even traditional IPO (IPO) are all down 20% to 30% from their 2021 highs.

Is it not the JPM view that the Fed faces either a credibility problem or that bond market moves represent a regime change on par with the 2013 tantrum. But to make the elements of this view clearer, we present them as answers to the five most frequently-asked questions received over the past few weeks.

1) What's the most likely path of core inflation over the next one, two and five years? US core inflation probably rises about 2% in Q2 due to the combination of a demand surge and service sector supply bottlenecks (see [Through the noise, the case builds for global reflation](#) by Lupton and Kasman from Feb 12th). But like the Fed, we view this as transitory given slack in labor and product markets. Beyond Q2, the forecast has US core around 1.8% for 2021 and 2022, on recognition that previous episodes of full employment over the past 30 years have failed to deliver a sustained period of +2% core PCE due to a range of structural factors that have flattened Philipps curves (2006-07 was the exception). So even though we don't publish an inflation forecast beyond 2022 to tie out with Fed projections, our bias is to think that core inflations multi-year path will validate the Fed's patience eventually.

2) Can bond yields stabilize soon because they are now cheap, investors are short duration and/or the Fed will intervene? We noted last week that Bonds were looking cheap on some measures like money market pricing and fundamental fair value models, but not on others like the level of yields relative to inflation expectations (see [The beginning of the end of easy money is starting to look overpriced](#) in the Feb 28th *J.P. Morgan View*). Hence a tactical recommendation to buy US 5Y notes intra-week, which we've since neutralized (see Barry's [US Treasury Daily](#)). Over the past week, money market pricing has become more extreme/cheaper ([chart 3](#)), but a cash/10Y curve steepness (150bp) isn't particularly wide by historical standards when the Fed is on hold and inflation expectations are above 2% ([chart 4](#)). Investor positioning is only slightly underweight, according to JPM's weekly duration survey ([chart 4](#)). And the Fed seems unlikely to adjust the maturity of its asset purchase without evidence of market dislocations that go beyond a moderate increase in rate volatility and an intra-day collapse in market liquidity ([chart 5](#)).

US inflation releases this spring will present a key test for market stability, even if the consensus expects an acceleration in price pressures. In those brief periods when inflation has managed to surprise to the upside, it has usually done so while inflation was rising ([chart 6](#)). That is, inflation forecasters are too conservative on the way up and on the way down, even if rising inflation has been the aberration and stable inflation the norm.

3) Does an uptrend in US 10Y rates imply long-term underperformance of EM vs DM across FICC & Equities? There is a tendency to equate upswings in US bond yields with trend strength in the trade-weighted dollar and sustained underperformance of the EM complex (MSCI EM, EM local currency debt, EM FX) versus DM markets. The 2013-18 Fed cycle, which began with the tantrum and ended when cash rates reached about 2.25%, delivered that pattern, but the 2004-06 Fed cycle did not ([chart 7](#)).

One factor that distinguished the two cycles was the US current account deficit, which widened from about -3.5% of GDP in 2002 to -6% in 2006, but which narrowed from about -2.6% in 2013 to -2% in 2018. Now, the US external imbalance is about -2.6% and biased to widen as US fiscal easing outpaces other countries'. A higher funding requirement requires the US to offer higher cash rates (not just bond yields, which only attracted unhedged inflows from reserve managers) to keep the currency stable. And if the Fed indeed doesn't hike until 2024, cash rates may prove inadequate in nominal and real terms to sustain the dollar's recent momentum. So absolutely be bullish USD vs EM FX into the spring as the possibility of short-term inflation surprises keep

the bond market twitchy. (EM external imbalances are much smaller than in 2013, but the internal ones are not. See [table 1](#).) But avoid dismissing EM for the rest of this rate cycle, which will evolve through several phases (rate stress now, stability later) and entail other offsets (zero US cash rate, US current account deficit).

4) What level of interest rates stresses the economy and Equities? Interest rates always rise to some degree as the economy revives, but the risk of a negative feedback loop from higher financing costs to slower growth due to too much leverage isn't even relevant when real rates are negative. Indeed, business cycles don't end until real rates are much closer to the rate of real GDP growth ([chart 8](#)), and Equity bull markets don't end until the business cycle does. So thinking transitively, the Equity bull market shouldn't be threatened until real rates are well into positive territory.

The earning yield/bond yield framework yields a similar conclusion. Real rates would need to rise about 100bp to reduce this measure of the equity risk premium from an above-average to an average level ([chart 9](#)). A recent survey conducted at JPM's Macro, Quant and Derivatives Conference last month also suggests that the pain point is quite a bit higher than current levels. Only 10% of respondents thought that US 10Y yields in the 1.5% to 2% range would threaten equity multiples, whereas 35% thought a 2% to 2.5% yield would and over 50% thought that +2.5% rates would (see [2021 JPM Macro, Quantitative & Derivatives Conference: Key takeaways](#) by Kolanovic from Mar 3rd).

5) What is the best real asset for hedging inflation? We discussed a few weeks ago that the choice amongst real assets for a higher-inflation environment should consider performance during various inflation regimes, current valuations and carry rather than just the first factor (see [Some like it hot: the best and worst inflation hedges as the US goes big on fiscal stimulus](#) from the Feb 19th *J.P. Morgan View*). [Chart 10](#) combines the valuation and carry aspects to highlight why Commodities still outrank all others. Only a broad Commodities index (BCOM) or a sector like Agriculture combines below-average long-term valuations with positive carry. Oil futures and Energy Equities come next, followed by EM Commodity FX (RUB, BRL, ZAR), TIPS and Materials Equities. The worst is still Gold, despite its impressive performance during the high-inflation 1970s and early 1980s. It's simply still expensive in real terms, and it offers no yield.

Equities

Global equity markets reversed some of their gains from earlier in the week, as bond yields spiked again and USD moved up. Value vs Momentum benefitted from the rise in

yields, with Financials leading and Tech lagging. Regionally, Europe outperformed the US.

Our Global equity strategists argued for a likely breakout in bond yields, but also believe that equities will be able to tolerate this repricing, as Growth-Policy tradeoff remains supportive. The weaker recent trading was partly due to accelerated yields spike and a move up in real rates, but that should not continue at this pace. They expect further rises in bond yields, but not an imminent convergence with breakevens, at least not while growth and inflation are about to accelerate. Big picture, the phase of activity pickup is ahead of us, as signalled by a M1 surge, which should also coincide with the easing of lockdowns across Europe. At the same time, excess liquidity is likely to stay ample. Out of potential upcoming headwinds to some aspects of the reflation trade, USD direction and China credit impulse are notable. USD could end up being resilient, in contrast to widespread consensus bearish view, and China credit impulse has peaked, which tended to lead commodity prices by 6-9 months. Miners are tactically stretched, and the strategists hold a preference for Financials and the consumer reopening stocks among cyclicals. Regionally, they believe US will not be the leader this year as bond yields rise, and Tech correlations with bond yields are turning more and more negative. They are OW Japan and Eurozone (see [March chartbook](#) by Matejka et al from Mar 1st).

Our Japanese Equity strategists highlight the recent stepped-up environmental policy developments and argue that: 1) Environmental scores could start to become effective as a performance driver; 2) changes in environmental scores are likely to get larger depending on how well companies deal with environmental issues; and 3) the tendency of environmental scores to affect overall ESG scores is likely to intensify. Finally, they look for implications of ESG investing for Japanese equities and highlight beneficiaries (see [ESG stocks in Japan](#) by Sakagami from Mar 4th).

Our SMid strategists note that the outlook remains one of exceptional real GDP growth this year which should help margins recover and boost double-digit EPS growth. While valuations are high, the excess yield of SMid-Caps is also high which is why the recent move in US 10-year yields does not derail the case for SMid. Technicals signal anemic gains in the next 1-6 months... but there are \$2 Trillion in Spacs (11% of global market cap of SMid) waiting to buy something. All in all, the broader equity market may not have much upside left in the short-term, but many stocks do which is why they continue to believe 2021 is a stockpicker's paradise (see [The SMid View - Mar 2021](#) by Lecubarri et al from Mar 4th).

Bonds

Bond markets saw some decoupling between US rates and Bund and gilt yields, which partially retraced last week's sell-off. In the US, markets continue to price in a full hike in early 2023, nearly a year ahead of our forecast. Fed Chair Powell emphasized this week that the Fed is inclined to view any rise in inflation over coming quarters as transitory. But he did not push back on the recent rises in yields, noting instead that the concern would be over disorderly conditions or a persistent tightening that threatens the achievement of its goals. With markets likely to struggle to price in an even earlier Fed hike, our strategists stay neutral duration after taking profit on their tactical long in 5Y USTs earlier in the week (see [UST Market Daily](#) by Barry et al from Mar 2nd). They continue to look for higher yields and a steeper curve over the medium term.

In the **Euro area**, ahead of next week's ECB meeting we expect it to signal a low tolerance of a tightening in financing conditions from current levels likely with a broad consensus in the Governing Council (see [ECB preview](#) by Fuzesi from Mar 5th). German yields retraced much of last week's sell-off, and will likely remain caught in a tug-of-war between higher global yields and the ECB's desire to maintain easy financing conditions given a lower starting point for inflation and a relatively slower recovery. Our strategists take profit on tactical longs in 5Y Germany, and recommend 1s/10s EUR weighted bear steepeners. Intra-EMU, they keep longs in 10Y Spain vs. Germany and hold 10s/30s Italy flatteners.

In the **UK**, the Chancellor's budget delivered a larger fiscal boost for this year and next with a roadmap for tax hikes in the future. Our strategists stay neutral duration, however, and expect 10y yields to range trade around current levels and maintain a more medium-term bearish bias. They take profit on tactical 1Yx1Y SONIA longs given the recent rally, and hold 2s/10s conditional bear steepeners. In **Australia**, the RBA delivered on expectations of more forceful QE purchases which helped stabilize conditions. Our strategists stay long 10Y ACGBs vs. USTs and keep longs in 2Yx1Y AUD swaps as well as AUD 3s/10s EFP box steepeners.

In **EM**, a larger US fiscal package and related boost to US GDP growth along with stronger domestic momentum has prompted upward revisions across a number of EM countries. Moreover, the rise in US real rates adds to an already hawkish bias at some EM central banks, particularly in higher yielding countries (see [EMOS](#) by Oganess et al from Mar 4th). As a result, our strategists are UW local duration via UWs in lower yielders and reduced OWs in high yielders. They are UW in EM Asia via Malaysia, partially offset by OW China. In EMEA EM, they are neutral overall via UWs in Czech and

Poland vs. OW Russia. And they UW Latam via Chile and Peru, partially offset by OW Mexico.

Credit

In this week's edition of Crisis Watch, our strategists revisit reflation in the context of the gap which seems to have opened up between credit spreads and interest rate volatility. In particular, credit spreads seem tight given the recent rise in interest rate volatility and we discuss alternative paths to mean reversion. (See [Crisis Watch XXXVIII](#) by Dulake et al from Mar 4th).

Credit spreads have proven relatively invariant to the recent rise in interest rate volatility. Could it be that spreads are offering creditors a false sense of security with the usual lags suggesting spreads are about widen? Possibly, not least if reflationary dynamics become disorderly and policymakers lose control of the narrative (see [Crisis Watch XXXVII: Trade or Fade extremes?](#) by Dulake et al from Feb 17th). Alternatively, it could be that interest rates markets are over-pricing disorderly dynamics, with credit markets correctly anticipating more orderly, albeit fiscally accelerated reflation. Either way, mean reversion in either scenario would suggest a case of selling rate volatility versus buying credit index protection.

Currencies

The US yield move was much more exceptional this week, something the team had been expecting given the exceptional cyclical outlook in the US. Rather than the synchronized global rates repricing that more characterized the past several weeks, G10 rates were very divergent this week with 10y yields in the EU, UK and Switzerland falling 5-8bps, compared to US and CA yields rising 15-16bps. In the past few weeks our strategists have highlighted rate divergence as an increasingly important driver of relative FX performance in the current macro environment. This is not only because of divergence in the cyclical path out of the pandemic, but also because of divergence in central banks' reaction to this.

In this week's [FXMW](#), the underlying drivers of rate and FX divergence are analyzed in a more structured way, and a high-level scorecard across the major inputs into the future path of policy normalization is presented for G10. This simple exercise, in-part reinforces some of the differentiation already expressed in rates, but also highlights how rates in NO and especially US appear low relative to peers while rates in NZ, AU, SE, and GB look slightly high. Given the close linkage between relative rates and FX, these conclusions translate relatively directly to FX as well.

Hence the portfolio, though oriented more outright long the USD, still aims to balance a US exceptionalism with global reflation, and in particular continues to hold a concentration of petro FX longs as the best expression of global reflation. This week our strategists upscale USD longs through long USD/JPY and USD/CHF cash positions – beyond expressing a constructive USD view they explain further below why short JPY and CHF function as attractive global reflation trades. Additionally they buy CAD/JPY as an additional USD/JPY proxy that adds a pro-reflation commodity element. Finally, they upscale a long NOK/SEK exposure by buying cash on top of an options structure, and rotate the funding of long CNH from USD to EUR.

Commodities

OPEC+ agreed to keep production unchanged in April, sending prices soaring by more than 4%. Not only did Saudi Arabia commit to keep its voluntary 1 mbd cut for a third consecutive month, but most of the rest of the alliance also agreed not to increase production either. Saudi Arabia kept the reasons for caution vague but made it clear that the 1 mbd of voluntary cuts may take a long time to come back into the market and that when it does, the return will be phased over several months and tied to a disciplined compensation.

As for production normalization, our strategists now expect Saudi Arabia to reverse 500 kbd of its cut in May, with the rest of the alliance adding another 500 kbd to the market. Demand conditions will allow the group to easily ramp up production by another 1 mbd in June a final 500 kbd tranche in July. Restrained supply, along with rising demand, will open a 1.8 mbd deficit in the oil market over the next three months, bringing OECD inventories to their 2015-2019 averages by June. Our strategists still believe the alliance will keep 4-5 mbd of its January 2020 production out of the market until demand recovery is fully validated, somewhere in mid-2022. This path suggests that the Brent oil price prices should peak at \$80/bbl in 2Q22. Overall, 2021 and 2022 Brent price forecasts are revised higher by \$3 and \$2, respectively, to \$67/bbl and \$74/bbl.

With price moderation seemingly out the door, the question naturally shifts towards a supply response. Saudi Arabia's calculated bet is that US tight oil will not add output beyond what is already expected this year, despite higher oil prices. This will allow the alliance to both tighten the market, secure higher prices and still eventually increase production without having to sacrifice market share. The team agrees and project a largely flat production profile this year in the US. The evidence—slowing growth in rig counts and frac activity—suggests that US operators, for now, continue to keep spending in check. It is possible, if not likely, that investors may be a little more forgiving of some additional spend at

\$64 WTI than they were at \$55. But a \$60/bbl WTI price this year almost guarantees 1 mbd supply growth in 2022, meaning next year is still shaping up to be dominated by a battle for market share. (See [Oil Markets Weekly](#) by Kaneva et al from Mar 5th).

Cross-asset forecasts & strategy

Rates	Current	Mar-21	Jun-21	Sep-21	Dec-21
US (Fed funds)	0.07	0.00	0.00	0.00	0.00
10-year yields	1.55	1.35	1.50	1.60	1.65
Euro area (depo)	-0.50	-0.50	-0.50	-0.50	-0.50
10-year yields	-0.30	-0.40	-0.35	-0.25	-0.20
Italy - Germany 10Y (bp)	106	90	80	75	90
Spain-Germany 10Y (bp)	70	60	55	50	55
United Kingdom (repo)	0.10	0.10	0.10	0.10	0.10
10-year yields	0.76	0.70	0.75	0.85	1.00
Japan (call rate)	-0.10	-0.10	-0.10	-0.10	-0.10
10-year yields	0.08	0.10	0.10	0.15	0.15
EM Local (GBI-EM yield)	4.75		4.20		4.29
Currencies	Current	Mar-21	Jun-21	Sep-21	Dec-21
JPM USD Index	120	118	117	118	118
EUR/USD	1.19	1.20	1.20	1.19	1.18
USD/JPY	108	102	101	99	98
GBP/USD	1.38	1.37	1.36	1.35	1.34
AUD/USD	0.77	0.76	0.74	0.72	0.71
USD/CNY	6.50	6.45	6.35	6.35	6.35
USD/KRW	1126	1120	1110	1100	1090
USD/MXN	21.28	20.25	20.75	21.25	21.50
USD/BRL	5.69	5.60	5.55	5.50	5.45
USD/TRY	7.54	7.20	7.30	7.50	7.65
USD/ZAR	15.36	15.00	15.50	15.75	16.00
Commodities	Current	Mar-21	Jun-21	Sep-21	Dec-21
Brent (\$/bbl, qtr end)	69	67	67	73	74
WTI (\$/bbl, qtr end)	66	65	65	70	71
Gold (\$/oz, qtr avg)	1,701	1,815	1,790	1,720	1,650
Copper (\$/ton, qtr avg)	8,925	7,700	7,000	6,800	6,500
Aluminum (\$/ton, qtr avg)	2,129	2,070	1,900	1,800	1,740
Iron ore (US\$/dt, qtr avg)	173	169	170	160	150
Wheat (\$/bu, qtr avg)	6.5	6.2	6.1	6.0	6.3
Soybeans (\$/bu, qtr avg)	14.3	10.7	10.5	10.5	10.5

Source: Bloomberg, Datastream, J. P. Morgan

Credit		Current	Dec-21
US High Grade (bp over UST)	JPM JULI	122	110
Euro High Grade (bp over Bunds)	iBoxx HG	98	90
US High Yield (bp vs. UST)	JPM HY	424	425
US Lev Loans (bp vs. 3Y Index)	JPM LL	434	450
Euro High Yield (bp over Bunds)	iBoxx HY	327	300
EM Sovereigns (bp vs. UST)	JPM EMBIGD	354	351
EM Corporates (bp vs. UST)	JPM CEMBI	242	225
Equities		Current	Dec-21
S&P 500		3,793	4,400
MSCI Europe		1,661	1,830
MSCI Eurozone		237	268
FTSE 100		6,631	7,100
Topix		1,896	1,900
MSCI EM (\$)		1,346	1,450
MSCI China		114	125
MSCI Korea		976	900
MSCI Taiwan		649	605
MSCI India		1,722	1,430
Brazil (Ibovespa)		114,921	134,000
Mexico (MEXBOL)		46,188	46,300
MSCI South Africa		1,534	1,795

Equity sector recommendations & year-to-date returns

	US		Europe		Japan		EM	
Energy	34%	OW	20%	N	32%	N	4%	N
Materials	1%	N	9%	OW	3%	N	8%	OW
Industrials	2%	N	5%	N	7%	OW	2%	N
Discretionary	-5%	OW	6%	N	5%	OW	2%	OW
Staples	-7%	UW	-3%	UW	-3%	N	-4%	UW
Healthcare	-2%	OW	-2%	N	-7%	UW	-5%	UW
Financials	12%	OW	12%	OW	14%	OW	3%	OW
Technology	-3%	OW	2%	N	2%	N	6%	N
Comm Services	5%	N	3%	UW	9%	UW	15%	N
Utilities	-7%	UW	-7%	OW	3%	UW	-2%	UW
Real Estate	-1%	UW	-4%	UW	11%	N	4%	OW

Core strategic and tactical recommendations by asset class

	Strategic (6M to 2Y trades)	Tactical (1M to 6M trades)
Asset allocation	Above-average OW of DM Equities & HY Credit vs Cash/Bonds; small OW of EM complex – Equities, Sovereigns & Corporates but short duration and neutral FX	No major changes in February edition of Global Asset Allocation
Equities	Country: biased towards US after Value rotation is more complete Sector: OW Healthcare; UW Staples, Utilities, REITs Style: biased towards OW Growth again	Country: OW EM ex China, EMU & Japan vs US, UK, rest of world Sector: OW Cyclical (Discretionary, Financials, Energy) Style: OW Value
Bonds	DM Duration: Neutral EM Duration: OW China, Russia, Mexico, & UW Chile, Czech, Poland, Malaysia in GBI-EM.	DM Duration: long US (5Y) and Germany (5Y) DM Curve: neutral DM Inflation: long in US (5Y5Y), Euros (1Y1Y) & AU (1Y) DM Spread: OW Spain (10Y) vs GE; OW AU (10Y) vs US US HY: OW CCCs & Bs vs BBs
Credit	US HG: OW Yankee Banks, Energy, Utilities, Cap Goods & Telecoms; UW US Banks, Healthcare, Tech & Retail US HY: OW Gaming, Transport; UW Healthcare, Tech, Cable, Paper, Industrials Euro HG: OW Autos, Toll Roads & Mail, Transport; UW Healthcare, Chemicals, Tech, Media Euro HY: OW Transport, Paper, Retail; UW Chemicals, Telecoms	Euro HG: Long AT1, sold protection on Itraxx Main super senior Euro HY: Long Itraxx Crossover vs Sub Financials EM Sovereigns: OW Pemex, Nigeria, Egypt EM Corporates: favour HY over HG globally; OW China (Property), CEEMEA Utilities, Latam Commodities
Currencies	Few strategic trades; most currency positions are tactical	Long USD vs EUR, CHF, GBP & JPY; short EUR vs NOK & RUB; long TRY vs USD; OW RUB, MXN, CNY & CZK in GBI-EM
Commodities	Long JPMCCI Agricultural sub-index	Long Oil, short Gold & neutral Base Metals

Source: J.P. Morgan flagship weekly and monthly strategy publications, including [Global Asset Allocation](#), available on www.jpmm.com. Red shading indicates higher-conviction view

Economic Research Note

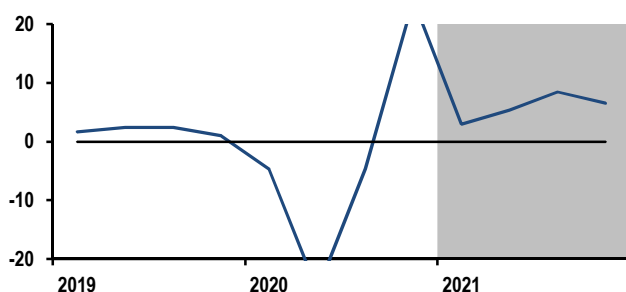
Here comes the consumer

- **Global consumption to surge in coming quarters**
- **DM leads with 10% ar gains; fiscal thrust boosts US, mobility rebound buoys Western Europe**
- **China slows as pent-up demand fades and policy tightens**
- **Even after bounce DM consumers will have generated 10% of GDP in excess savings**

A huge rebound in consumer spending sparked the recovery that began in mid-2020, but in recent months demand has rotated toward business spending. We estimate global consumer spending gains slowed sharply last quarter and they are tracking a weak start to the new year. Meanwhile, gains in business capex and spending on inventories have remained robust. If we are right, global demand is poised to rotate back toward consumption. Following an expected modest 1.9% ar gain this quarter we look for global consumption to surge at an 8.5% ar in the middle quarters of the year, providing a key impetus for an expected 7.6% ar gain in global GDP (Figure 1).

Figure 1: Global personal consumption

% over 2 quarters, ar



Source: J.P. Morgan

The drivers of this expected bounce are the same ones that propelled last year's rebound. The COVID-19 second-wave drags have generated pent-up demand that will be unleashed as the virus is contained and vaccine rollouts gather pace. In addition, fiscal stimulus continues to boost household incomes, which combined with the spending slowdown, has raised household saving rates sharply in recent months. The normalization of the saving rate will add further impetus to consumer spending growth ahead.

While the drivers are similar to those of last year's bounce, the regional and sectoral composition of the spending rebound is set to differ materially. We expect this year's rebound to be concentrated in the DM, propelled by US fiscal supports and the activation of large pent-up demand in Western Europe (Table 1). We expect both regions to deliver double-digit an-

nualized consumption growth in the middle quarters of this year. We expect EM consumption to grow at less than half the DM pace, largely as a result of decelerating gains in China, which has exhausted much of its pent-up demand and likely will see fiscal and credit policy supports withdrawn (Figure 2).

Table 1: DM activity

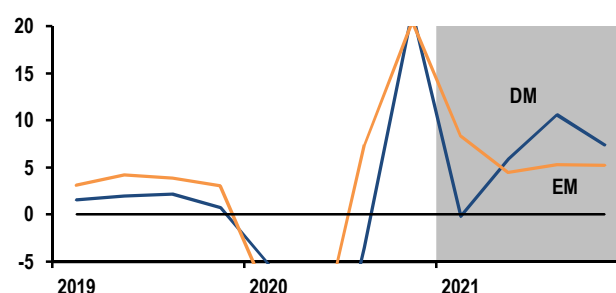
% change for given period, ar

	2Q20	3Q20	4Q20-1Q21	2Q-3Q, 21
GDP	-35.2	40.9	2.0	9.5
Consumption	-37.9	49.6	-0.2	10.6
Capex	-41.8	54.2	10.8	8.6
IP	-48.0	60.6	6.5	8.0

Source: J.P. Morgan

Figure 2: Global consumption

% change over 2 quarters, ar



Source: J.P. Morgan

Our forecast incorporates a normalization of DM household saving rates to pre-pandemic levels. It does not, however, incorporate any drawdown of the accumulated financial assets by DM households built up over a year of elevated savings. In the G-4 we estimate that households will have amassed a buffer of new saving worth over 10% of one year's income by the end of this quarter. Given this substantial wealth accumulation, the possibility that saving rates move below their pre-crisis levels is a significant upside risk to the consumption outlook for the coming quarters.

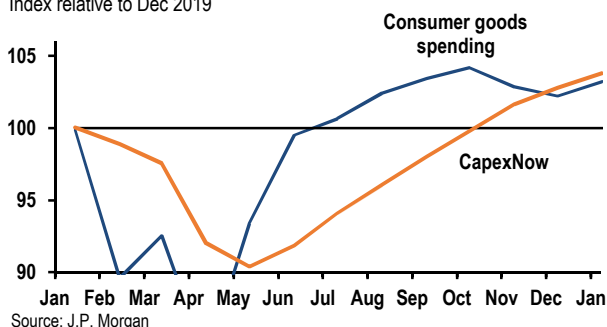
Consumers stalled as we turned into 2021

Consumers are bearing the brunt of the second wave of the pandemic. Following an initial surge that pushed global consumer goods spending above its pre-crisis level, and led to robust gains in overall spending, global goods consumption flattened last quarter. Even after incorporating a January surge in US retail sales, global goods spending looks to have declined at a roughly 3.5% ar in the three months through January (Figure 3). High-frequency information on consumer services spending is more limited, but available data in the US show real services spending also contracting in the three months through January. The drag is likely even more pronounced in Europe, where the drop in mobility associated with the second wave was far deeper. As a result, we forecast

a second soft quarter with global consumption projected to rise at a modest 1.9% ar this quarter. That we expect overall GDP to grow at a faster 2.1% ar reflects the resiliency of business spending through the second wave. Global (ex. China) capex increased at a 24.2% ar in 4Q20 and our capex nowcaster rose at a 17.9% ar in the three months ending in January.

Figure 3: Global goods sector activity

Index relative to Dec 2019

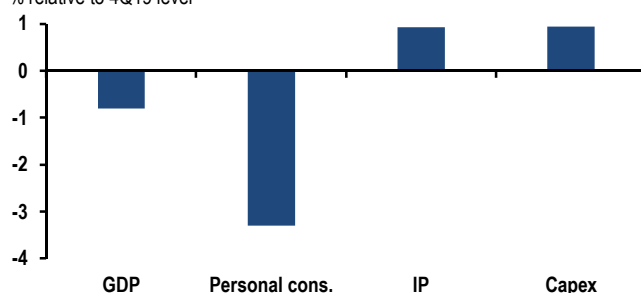


Consumption to bounce into midyear

We expect the soft patch for global consumption to be followed by a bounce taking hold in March/April. Overall, we look for global consumption to rebound to an 8.5% ar in the middle quarters of the year.

Figure 4: Global activity tracking, 1Q21

% relative to 4Q19 level



The key drivers of this bounce are similar to those that drove the consumer-led rebound in the middle of last year.

- **Pent-up demand through re-opening.** The recent slowing in global consumption is directly related to the COVID-19 second wave and the associated pullback in mobility. While the targeted focus of government restrictions limited spillovers to manufacturing, construction, and international trade in goods, the second wave depressed consumer spending (Figure 4). With the virus being successfully contained and the pace of vaccinations picking up, there is significant pent-up demand to be activated as spending recovers from depressed levels and social interaction normalizes. We es-

timate global consumer spending will stand more than 3% below its pre-pandemic level this quarter and is far more depressed than other components of activity (Figure 4).

- **Recovery in labor income.** Our outlook envisions a robust return to work as the vaccines gain traction and the pandemic fades. In the US, labor income is set to surge as we see about 8 million jobs being created this year. In Europe, the impact will be more limited as state-sponsored furlough schemes have kept people in jobs. Still, boomy global growth will generate jobs growth around the world and with it strengthening labor income.
- **Fiscal stimulus boosts income.** Ongoing fiscal supports will reinforce recovering labor income and declining saving rates. As was the case last year, policy supports are cushioning the income blow of the second-wave drag. In the US this has come in the form of direct transfers—checks and unemployment benefits—while European and Japanese support has come largely through wage and job subsidies, resulting in a sustained rise in household incomes and a sharp rise in saving rates across the DM.

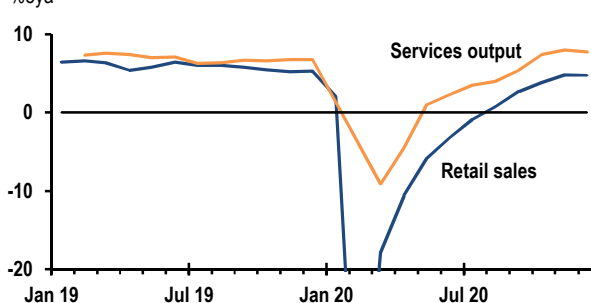
China moves in a different direction ...

While the supports driving the coming consumption bounce are similar to last year's, the composition of this year's bounce is likely to differ by region and sector.

Regionally, last year's bounce was common across the EM and DM. But we expect the coming rebound to represent a concentrated surge in the developed market economies. To a large degree anticipated EM underperformance reflects China's diverging path. As we turn into 2021 China has not experienced a significant COVID-19 second-wave growth drag. Indeed, both retail spending and service sector output ended last year well above pre-pandemic levels (Figure 5). At the same time, fiscal and credit policy are tightening. As a result, we look for China's domestic spending gains to slow into the middle quarters of the year, at a time when consumption in Europe and the Americas is rebounding.

Figure 5: China activity

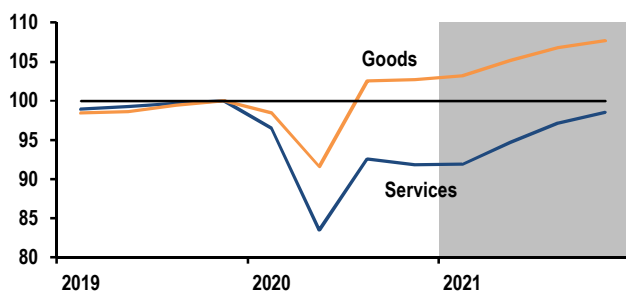
% oya



Last year's growth recovery was heavily concentrated in goods sectors. Indeed, goods consumption recovered more than completely with our retail sales proxy standing over 2.4% above its pre-crisis path in December. By contrast, both global and G-4 personal consumption stood about 4.5% below their pre-pandemic levels in 4Q20 (Figure 6). The upshot of this dynamic is that pent-up demand for durable goods is closer to being exhausted while the size of the gap in services spending remains large. If as expected, vaccination breaks the link between mobility and the virus, the opportunity to normalize depressed service sectors will become a key growth driver.

Figure 6: DM consumption

Index: 4Q19=100



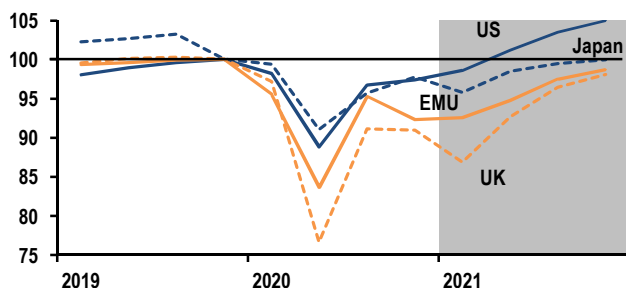
Source: J.P. Morgan

... as DM dynamic looks similar to last year

The dynamics of pent-up demand and fiscal supports promoting a DM consumption bounce reflect a move toward lower household saving rates. For the G-4 we forecast the saving rate to have risen to 20% this quarter, about twice its pre-crisis level. Although we expect a sharp decline across the G-4, its source will differ across countries.

Figure 7: Real personal consumption, G-4

Index: 4Q19=100



Source: J.P. Morgan

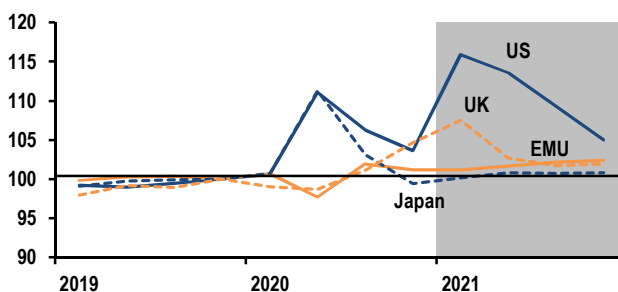
The boost from pent-up demand is likely to be greatest in Western Europe. Consumption growth has slowed everywhere in recent months but European consumers have been hit hardest by both waves of the virus. Indeed, US personal consumption spending stood 2.6% below its pre-pandemic level at the end of last year while the Euro area and UK saw

much weaker consumption profiles, finishing 2020 8.0%-9.0% below their pre-pandemic levels (Figure 7).

Fiscal support is likely to be a bigger driver in the US. DM policymakers have taken extraordinary measures to support household income and DM disposable income grew more than 2% last year despite a sharp labor market deterioration. But US fiscal policy has been the most generous by far and US households' personal income surged as a result of large transfer payments and generous unemployment benefits. In Western Europe and Japan incomes remained stable as job and wage subsidies offset labor income losses (Figure 8).

Figure 8: Real personal income, G-4

Index 4Q19=100



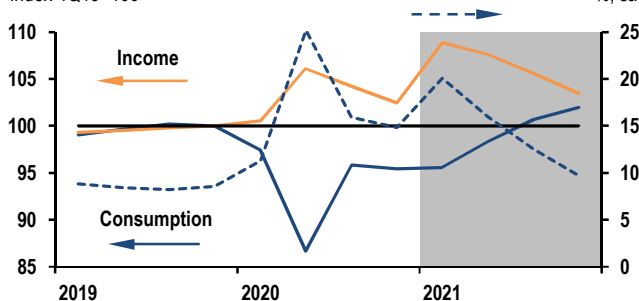
Source: J.P. Morgan

Households buffered by healthier balance sheets

A return to normal saving rates is built into our forecast but it is also important to recognize that the period of "above-normal" saving has produced a significant improvement in G-4 household balance sheets. Specifically, excess saving (defined as saving above the usual pace before the pandemic) has been used to pay down debt or accumulate assets (such as bank accounts, equities, or homes). Traditionally, the increase in new wealth as a result of transitory shocks tends to boost spending and depress saving for a period of time (Figure 9).

Figure 9: G-4 household activity

Index 4Q19=100



Source: J.P. Morgan

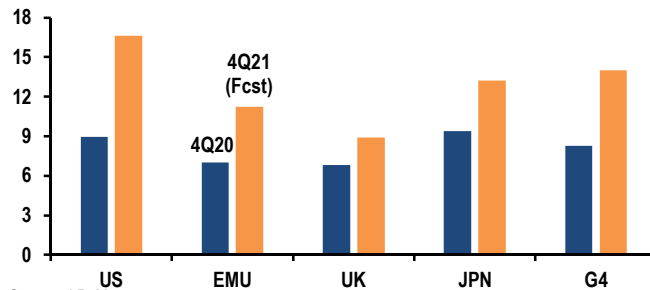
In the US, excess saving has amounted to about \$1.6n rise in net worth. Many households paid down debt. But there is also

evidence of a significant rise in liquid assets, such as checking and saving accounts. Regardless, the significant boost to US household net worth adds to the buffer stock for future spending above and beyond normalization of the saving rate back to its old level.

In the G-4 as a whole, households look to have amassed a buffer of new saving amounting to more than 8% of household income by 4Q20. The wealth gain is broadly based across the region. Looking forward, we expect robust income growth alongside still-elevated saving rates to generate further wealth gains. The US stands out given its significant fiscal supports, with a stockpile of new wealth amounting to 17% of income. We project excess savings to reach 11% income in the Euro area by 4Q21, 9% in the UK, and 13% in Japan. Such high numbers point to a potentially larger and/or longer-lasting boost to consumer spending (Figure 10).

Figure 10: Excess household saving, G-4

% of household income, actual cumulative saving since 4Q19 less 2019 pace



Source: J.P. Morgan

Economic Research Note

US: The Treasury's trillion dollar unwind

- The US Treasury's massive cash stockpile at the Fed will decline in coming months
- This will correspondingly boost the amount of cash commercial banks hold at the Fed
- Which could affect short-term interest rates and banks' propensity to lend
- If this happens the Fed could tweak its non-monetary policy tools

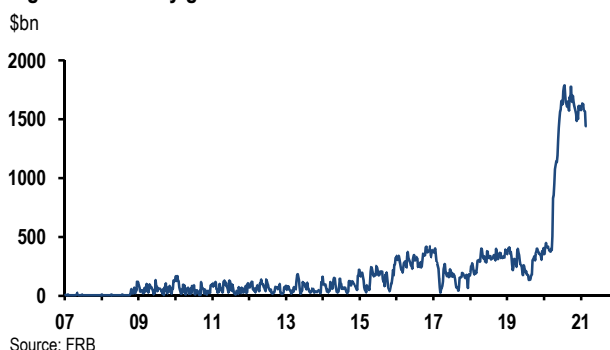
One of the Fed's many roles in the financial system is to be the fiscal agent for the US Treasury, i.e., it's the Treasury's bank. To this end, the Treasury maintains an account at the Fed, called the Treasury general account, or TGA. Last year the TGA swelled in size, from \$350 billion at the beginning of the year to just over \$1.6 trillion by year-end. The Treasury has recently indicated it intends to normalize the size of the TGA, bringing it down to around \$500 billion by the end of 2Q21. In this note we discuss how this normalization process will increase the amount of reserves that commercial banks hold at the Fed. This could have knock-on effects for both very short-term interest rates and for banks' willingness to make new loans. While this isn't a primary consideration for monetary policy, it could affect other aspects of Fed policy, including the setting of the Fed's administered interest rates and bank regulatory policy.

The links from Treasury to the Fed...

The Fed provides a number of financial services to the US Treasury: assisting in Treasury security auctions, accepting deposits and making electronic and check payments on the Treasury's behalf, among many others. The timing of the Treasury's tax receipts and proceeds of its debt issuance don't necessarily match the timing of its expenditures and other cash outflows. For this reason it keeps a buffer of liquidity at the Fed, the earlier-mentioned TGA.

Beginning in 2015 the Treasury decided to aim to keep enough funds in the TGA to cover one week's worth of outflows, subject to a \$150 billion minimum. (The goal was to ensure a smooth continuation of payments even if a disaster interrupted the Treasury's ability to access financial markets.) Last spring, the size of the TGA was increased even further, to "maintain prudent liquidity in light of the size and relative uncertainty of COVID-19-related outflows." The size of the TGA has since remained very elevated (Figure 1).

Figure 1: Treasury general account



Under the new administration, the Treasury Department has indicated that it intends to normalize the TGA, reducing its size to around \$800 billion by the end of 1Q and \$500 billion by the end of 2Q. While this is the intent, Treasury also noted "the path and extent of the decline will depend on several uncertain factors." When the size of the TGA eventually does decline it will have important implications for the amount of reserves in the banking system.

...and from the Fed to the banking system

Table 1 presents a snapshot of the latest weekly balance sheet of the Federal Reserve System. Its assets are predominantly Treasury securities and agency mortgages. Its largest liabilities are owed to the currency-holding public, the Treasury (through the TGA), and commercial banks (through bank reserves).

Table 1: Federal Reserve balance sheet, February 24, 2021

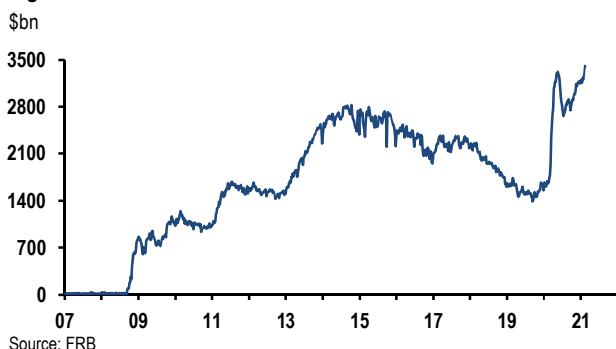
\$ bn			
Assets		Liabilities and owners' equity	
		Liabilities	
Treasuries	4845	Currency	2054
Agency debt	2		
MBS	2181		
Repurchase agreements	1	Foreign repos	205
Discount window loans	2	Overnight repos	0
Primary dealer credit	0	Deposits and other items	
Term auction credit	0	Banks (reserves)	3384
CP programs	0	TGA	1440
Gold and SDRs	16	SFP	0
FX swaps	7	Other liabilities	416
Other items	537	Capital accounts	39
	7590		7590

Source: FRB

Bank reserves are also the "plug" on the Fed's balance sheet. When the Fed buys assets in its QE program, bank reserves go up. When it allows them to mature, bank reserves go down. And when the TGA goes down—as is set to occur in a big way in coming weeks—bank reserves go up. When the Treas-

ury makes a payment, the Fed will debit the TGA and credit the reserve account of the bank of the recipient. In that way a Treasury payment without an offsetting inflow of tax receipts or debt sale proceeds will cause the TGA to go down and bank reserves to go up. When you or I make a payment, bank reserves aren't similarly affected. The difference is that the Treasury banks directly with the Fed, whereas you and I bank through banks. Our payments will result in the Fed debiting our banks' reserve accounts and crediting the reserve account of the recipient's bank: aggregate bank reserves are unchanged. The Treasury, in contrast, is effectively "outside" the banking system.¹ The coming decline in the the TGA means that bank reserves will increase by about \$1 trillion in coming months, a huge increase on top of an already staggeringly large pool of bank reserves (Figure 2).

Figure 2: Bank reserves



Reserves affect bank behavior

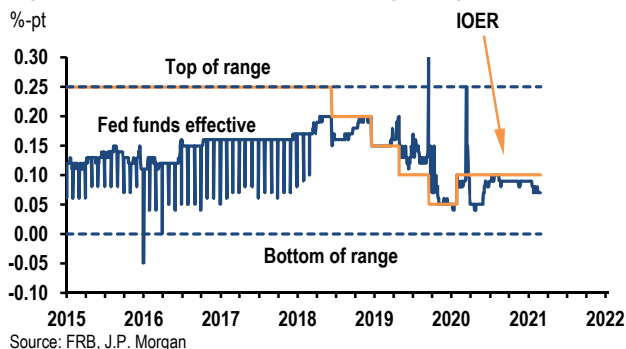
The federal funds market is the market where bank reserves are borrowed and lent overnight. It is a very unusual market. It has a small number of participants, limited volume, and unlike a normal market the clearing price is heavily determined by administered prices. The Fed's interest on excess reserve (IOER) rate exerts a gravitational pull on the funds rate. And the rate the Fed pays on its overnight reverse repo (ON/RRP) should serve as sort of a floor for the funds rate. Even so, the laws of supply and demand have not been completely suspended in this market. There are a number of regulatory and other constraints on the size of bank balance sheets. This means that the demand curve for reserves is likely downward-sloping, albeit only slightly so. When higher supply meets a downward-sloping demand curve prices

¹ This wasn't always the case. Prior to 2009 the Treasury kept much of its cash balances with banks in what was called the Treasury Tax and Loan Note Accounts program, or the TT&L program. Part of the rationale for this was that without the TT&L program large flows of funds from the TGA into and out of bank reserves would have made it difficult for the NY Fed to fine tune the amount of reserves in the banking system. That fine-tuning was necessary to get the federal funds market to trade near the target interest rate for the federal funds rate. This rationale was obviated by the shift toward controlling overnight interest rates through administered rates rather than through fine-tuning the amount of reserves in the banking system.

go down. And so there is a risk as an extra trillion dollars of reserves enters the market that the federal funds rate could move lower.

Since 2008 the Fed has set its target for the federal funds rate as a 25bp range, primarily using IOER and sometimes ON/RRP rates to encourage trading within that range. Figure 3 portrays the IOER rate and the effective federal funds rate normalized for the ups and downs of the target range. On five occasions the Fed has made "technical adjustments" to the IOER rate—changing its distance from the boundaries of the range to foster trading well within the range. On each occasion these changes were (i) implemented at regularly-scheduled FOMC meetings, (ii) 5bp in magnitude, and (iii) decided after the effective federal funds rate had been trading within 5bp or less of the boundaries of the target range. Since liftoff in late 2015, the technical adjustments were only accompanied by changes to the ON/RRP rate twice, during and after a period of repo market stress. We expect the same decision parameters to be used going forward, so that if the effective funds rate drifts to 5bp or lower the IOER rate would be increased to 15bp from its current 10bp, with future adjustments left on the table.

Figure 3: Interest rates relative to Fed target range



Because the upcoming decline in the TGA will boost the amount of bank reserves this implies, all else equal, bank assets will go up and the aggregate leverage of the banking system will increase. This creates a risk that banks would shed other assets or decrease new lending in order to take pressure off regulatory leverage ratios. To address this risk, last April the Fed temporarily exempted reserves (and US Treasuries) from the calculation of the supplementary leverage ratio that applies to large banks. That exemption is scheduled to expire at the end of this month; Chair Powell has indicated that the Fed is considering extending that exemption. Bank reserves are not exempt from some other regulatory calculations (notably the G-SIB score). So even with an extension of the relief granted last April, bank-dependent borrowers such as small businesses may experience some tightening in financial conditions as the shrinking of the TGA boosts the amount of reserves on bank balance sheets.

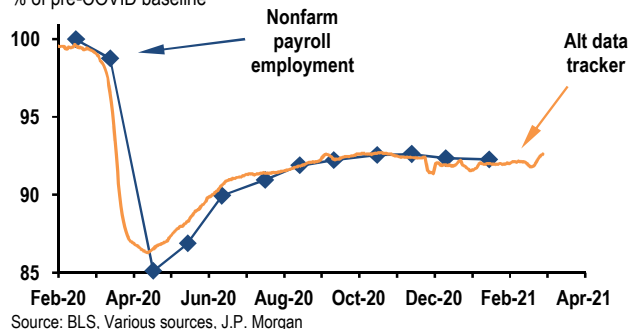
Economic Research Note

US: Lessons from a year of alt data watching

- High-frequency “alternative” data provided early signals of dramatic turning points under COVID-19
- Alt data have been most accurate in tracking narrower sectors with directly-relevant high-frequency indicators
- They have been less useful in predicting small changes in broader aggregate data
- Transit and travel-related indicators have been among the most highly correlated with aggregate data
- Working directly with microdata could extract more value from alt data as it becomes mainstream

Prior to COVID-19, we were somewhat skeptical about the value of “alternative data” in the context of US macroeconomic forecasting. Unlike in emerging market macro or single-stock analysis, where data can be scarce, we already have an overabundance of reasonably high-frequency indicators for tracking the US economy. But there is no doubt that alternative high-frequency indicators have been indispensable during the COVID-19 pandemic, due in large part to the unprecedented speed and magnitude of the turning points seen in the economy over the last year, most notably in March and May of 2020. In this note, we summarize lessons from the last year of alt data watching, drawing on results from our job tracker, which distills about 30 high-frequency indicators into a single indicator of nonfarm payroll growth (Figure 1).

Figure 1: COVID-19 jobs tracker based on alternative data
 % of pre-COVID baseline



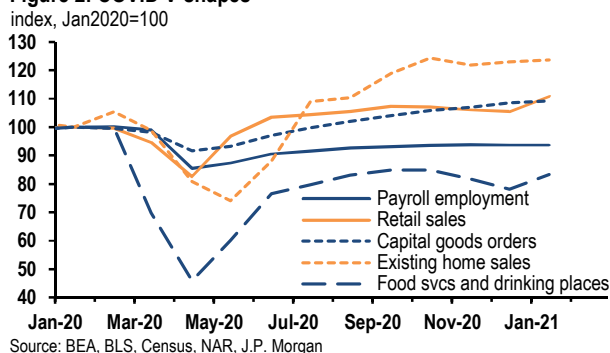
We find that alt data have been most useful in tracking narrower sector-level data where the alt indicators are directly relevant. For example, OpenTable diners, [Chase card spending](#) in the travel and entertainment categories, and Homebase employment data have been relatively successful in tracking the large swings in restaurant employment over the last year. And certain categories of our Chase card spending data have

also done well in tracking their analogs in the retail sales data. But it has been harder to find alt data indicators that do well in tracking smaller moves in larger sectors of the economy, particularly those less directly affected by COVID-19. Interestingly, however, we find that travel and transit indicators, like airport travelers reported by the Transportation Security Administration, subway riders from NYC’s Metropolitan Transport Authority, and transit indicators from Moovit and Citymapper have been among those most closely tracking broader employment levels. We also suspect that more value could be extracted from some of these indicators through more careful handling of issues like seasonal adjustment and sample selection, the latter of which would require direct handling of the microdata available from some providers.

A place to start

In this note, we focus on correlations of the alt data with nonfarm payroll employment, which is among the first and most important of the traditional economic indicators released each month. But we note that the performance of different parts of the economy has varied dramatically under COVID. Goods-related data like retail sales, home sales, and capital goods orders have jumped well above pre-COVID levels, while service sectors harder-hit by COVID remain depressed (Figure 2). It is quite possible that some alt indicators that do poorly in forecasting payrolls would do better with these other data.

Figure 2: COVID V-shapes

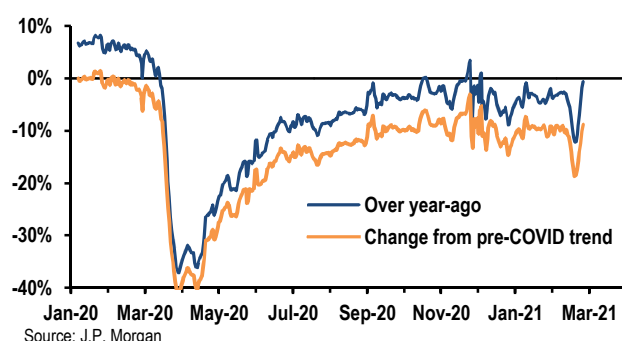


Nonetheless, in May 2020, we constructed the first version of our “alt data job tracker,” which combines a few dozen high-frequency data series into a single daily indicator of nonfarm payroll employment. We describe the construction of the job tracker in more detail [elsewhere](#), but we note one key point here. Many of the alt data series in the job tracker are provided in over-year-ago (oya) terms, that is, expressed as a percentage change relative to the data from the same day or week one year prior. But as we approach the one-year anniversary of the initial COVID-related shutdowns, these data in oya terms will tend to spike, providing a misleading signal about the current evolution of the data. We thus translate all relevant alternative indicators into a “percent change from pre-COVID

trend,” where we assume as a baseline that the data would have kept growing at the same rate that it grew between January 2020 and 2019, and we express the current data as a percentage shortfall relative to that baseline.

Figure 3 illustrates this transformation for our Chase consumer card spending data. Throughout 2020, the “change from pre-COVID trend” version of the data is essentially shifted down from the “over-year-ago” version by the oya growth rate in January 2020. But as we get further into 2021, the two will diverge as the over-year-ago version spikes up. We apply this transformation to all relevant alt data in the job tracker, as well to all of our charts of the Chase card and other alternative data in our publications.

Figure 3: Chase consumer card spending tracker



Without further ado

The job tracker divides payroll employment into six sectors: food services and drinking places, nonessential retail, arts and entertainment, travel and accommodation, personal services, and all others. The original “levels” version of the tracker regresses employment as a percent of its pre-COVID baseline in a sector on each of our few dozen alternative indicators, then weights the predictions from each of these indicators by the inverse of their mean-squared-errors. The R^2 from each of these regressions for the food services and drinking places sector is reported in Table 1.

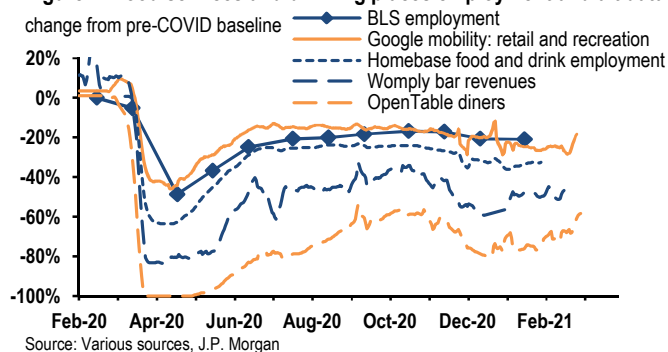
In this note, we introduce a “differences” version of the tracker, where we regress monthly payroll gains in each sector on the change in each alt data indicator between the reference weeks, limiting the sample to the months since September 2020 when job gains have reverted to more typical magnitudes. We similarly weight the forecasts from each indicator in producing a job gain forecast for each sector. Table 1 also reports the R^2 and root-mean-squared error (in thousands of jobs) from each of the differences regressions for the food services and drinking places sector. Similar results from all other sectors are available on request. Both versions of the model are updated daily in the [US Quant Econ Dashboard](#).

Table 1: Alternative indicators for food and drink employment

Indicator	R^2 in levels	R^2 in differences	RMSE in differences
OpenTable seated diners	0.978	0.877	103
Moovit public transit index	0.972	0.570	193
Chase: other travel and entertainment	0.968	0.599	186
TSA air travelers	0.964	0.746	148
Homebase health and fitness	0.962	0.033	289
Apple: transit directions	0.956	0.692	163
SafeGraph mobility and engagement	0.955	0.262	253
NYC subway riders	0.954	0.644	176
Citymapper mobility	0.933	0.757	145
Movie box office	0.926	0.512	206
Womply bar revenue	0.921	0.653	173
Chase: airlines	0.921	0.799	132
Chase: lodging	0.915	0.046	287
Chase: restaurants	0.914	0.499	208
STR hotel occupancy	0.913	0.069	284
Homebase beauty and personal care	0.906	0.229	258
Homebase total	0.894	0.256	254
Womply restaurant revenue	0.893	0.568	193
Homebase food and drink	0.877	0.962	57
Homebase retail employment	0.829	na	na
Google: workplaces	0.829	0.023	291
Womply lodging revenue	0.816	0.001	294
Homebase transportation	0.804	na	na
Google: transit stations	0.777	0.278	250
Google: retail and recreation	0.758	0.143	273
Chase: total spending	0.731	0.404	227
1010/Exabel	0.625	0.085	281
Raw Steel Production	0.615	0.447	219
FlightRadar24 global flights	0.597	na	na
Redbook: Samescore Retail sales	0.454	0.192	265
Homebase leisure and entertainment	0.394	na	na
Chase: health care & pharmacy	0.377	0.015	292
Womply retail revenue	0.210	0.203	263
ASA Staffing Index	0.152	0.008	293
USRailroadTraffic: Carloads	0.087	0.138	273

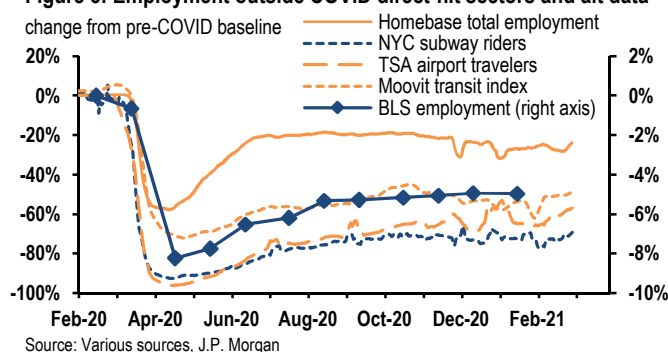
Source: Listed sources, BLS, J.P. Morgan. “na” indicates the regression coefficient had the “wrong” (negative) sign. Levels regressions run from Feb 2020 to present, excluding Mar to May 2020. Differences regressions run from Sep 2020 to present. RMSE in thousands of jobs.

The OpenTable seated diners data have the single highest R^2 of any indicator in tracking employment in the food services and drinking places sector. Several other related indicators are also near the top, including Chase card spending in the travel and entertainment categories, and restaurant and bar revenue reported by Womply (Figure 4). In a result that is common across several sectors, we also find that some indicators that measure travel and transit activity are still effective in tracking food services employment even though these indicators have no direct relation to food services. Examples include mobility data reported by the transit app Moovit, airport traveler data from the TSA, transit direction requests from Apple, and subway ridership from NYC.

Figure 4: Food services and drinking places employment and alt data

Somewhat to our surprise, many of these indicators also have reasonably high R^2 in the differences version of the model, indicating they can not only track the broad levels of activity, they can also provide information about month-to-month payroll gains. Of particular note are the Homebase food and drink sector data, which are in the middle of the R^2 pack in the levels models, but top the list in differences. This result suggests that the trend in the Homebase data may be off, perhaps due to attrition from their sample, even though the month-to-month changes could still be informative.

Results are less encouraging for the “all other” sector data in Table 2, that is, for employment outside the most COVID-affected sectors that are broken out in the tracker. The levels model R^2 are not too different from those for the food services sector, and again we see travel and transit indicators featuring prominently among those with the highest R^2 . But the alt data indicators generally do quite poorly in predicting month-to-month growth in employment in this broad sector that has seen steady gains in the last several months (Figure 5). Many of the indicators have the “wrong” (negative) sign in the differences regressions (listed as “na” in the table). Indeed, the job tracker’s performance in predicting total payroll gains in real time in recent months has been underwhelming.

Figure 5: Employment outside COVID direct-hit sectors and alt data

est R^2 in differences. These facts about relative performance in the levels and differences models lead us to suspect that the off-the-shelf published indices could be improved with more careful work on the underlying microdata to handle issues like sample attrition, as we do with our own Chase card spending data.

It also has been quite apparent to us over the last year how quickly the alternative becomes mainstream. In February of last year, we were scraping data from the web ourselves to measure the rapid COVID-driven declines in activity, but now many of these data are easily available from platforms like Bloomberg and Haver. Readers looking for an information edge over the competition will need to get creative again.

Table 2: Alt indicators for employment ex. COVID direct-hit sectors

Indicator	R^2 in levels	R^2 in differences	RMSE in differences
TSA air travelers	0.987	na	na
NYC subway riders	0.976	na	na
Chase: other travel and entertainment	0.975	na	na
Homebase health and fitness	0.958	0.782	44
Chase: airlines	0.957	na	na
Moovit public transit index	0.957	0.000	94
Movie box office	0.947	na	na
SafeGraph mobility and engagement	0.940	0.303	79
Citymapper mobility	0.937	na	na
Chase: lodging	0.936	na	na
STR hotel occupancy	0.923	na	na
OpenTable seated diners	0.904	na	na
Apple: transit directions	0.898	na	na
Google: workplaces	0.888	0.318	78
Womply lodging revenue	0.880	na	na
Womply restaurant revenue	0.852	na	na
Womply bar revenue	0.842	na	na
Chase: restaurants	0.840	na	na
Homebase beauty and personal care	0.839	0.034	93
Homebase total	0.802	0.312	78
Homebase transportation	0.778	0.630	57
Homebase food and drink	0.770	na	na
Homebase retail employment	0.751	0.942	23
Chase: total spending	0.741	0.157	87
Raw Steel Production	0.710	na	na
Google: transit stations	0.687	0.009	94
1010/Exabel	0.656	na	na
Google: retail and recreation	0.651	0.545	64
FlightRadar24 global flights	0.540	0.568	62
Redbook: Samesite Retail sales	0.520	0.246	82
Chase: health care & pharmacy	0.412	0.201	84
Homebase leisure and entertainment	0.293	0.029	93
ASA Staffing Index	0.251	na	na
Womply retail revenue	0.200	na	na
USRailroadTraffic: Carloads	0.117	0.543	64

Source: Listed sources, BLS, J.P. Morgan. See footnote from Table 1.

Again the Homebase data stand out as something of an exception, with middling performance in levels but among the high-

Economic Research Note

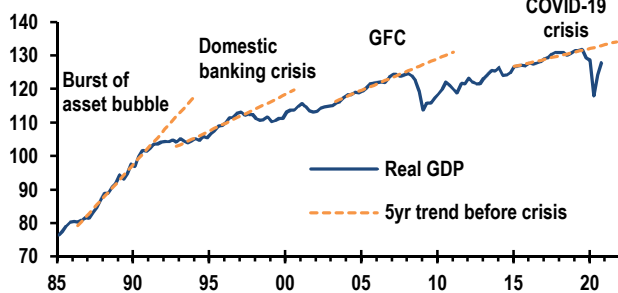
Should Japan seek new macro policy collaboration hereafter?

- Current policy coordination functions well especially amid upward pressure on growth and long rates
- r is close to ELB and r^* should be rising, which would increase the effectiveness of monetary policy
- Seeking high-pressure economy through aggregate demand policy is not efficient
- Beyond the BoJ's March assessment, fiscal policy and the allocation of funds by the BoJ to foster structural reform should be effective to raise r^*

We expect Japan's economy to contract slightly in 1Q and to recover rapidly from 2Q21, driven by the global bounce especially in the US and by vaccination progress. That said, with every crisis Japan's real GDP has never fully recovered its pre-crisis path (Figure 1). Furthermore, even without a crisis, Japan's potential growth rate has fallen, and the current crisis has accelerated its decline (Figure 2).

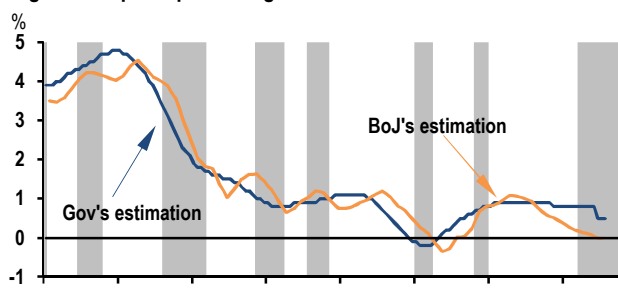
Figure 1: Scarring effect after crises

1990=100



Source: Cabinet Office, J.P. Morgan

Figure 2: Japan's potential growth rate



Note: Since BoJ's estimation is published biannual base, interpolated linearly to quarterly base by J.P. Morgan. Source: Cabinet Office, BoJ, J.P. Morgan

In crisis episodes, hysteresis effects (deterioration of worker skills, declines in labor participation, and a slowdown in

productivity reflecting weak capex and R&D) have occurred. The current crisis likely will fade in the near future, but it again may cause a downward shift of potential real GDP. Even if such scarring effects disappear in a relatively soon, the underlying headwind of population aging and decline will continue to lower Japan's potential growth rate. This situation could limit the room for the appropriate conduct of macroeconomic policy, reflecting the accumulation of government debt and a policy rate, r , close to the ELB, which would make it harder to achieve economic stability. With these perspectives in mind, this note proposes appropriate collaboration between fiscal and monetary policies in response to current economic conditions.

Should Japan seek a high-pressure economy through aggregate demand policy?

While hysteresis effects lower trend GDP growth, aggregate demand policy could affect potential real GDP by alleviating hysteresis. This theory received wide attention when [then-FOMC chair Yellen \(2016\)](#) first proposed this. In those days price stability and maximum employment looked close to being achieved in the US, and the next focus was whether the Fed could contribute to raise potential growth and r^* as well.

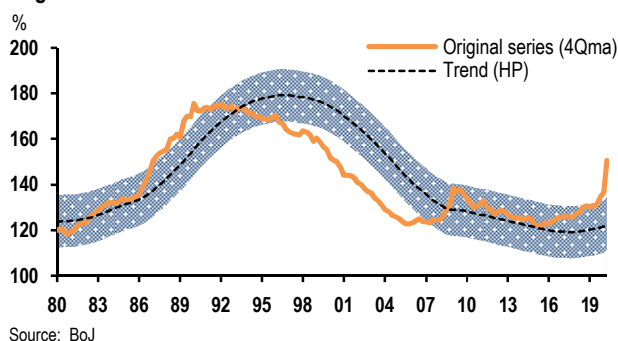
Currently, the US is running a combination of huge fiscal spending and low-for-long interest rates. However, it seems that the Fed is prepared to aim for a somewhat overheated economy. The Fed is, in addition to adopting a flexible average inflation target and seeking maximum employment as a broad-based and inclusive goal, appears to strive for a reduction of income equality as well with Fed research supporting the view that a somewhat overheated economy would generate disproportionate improvements for disadvantaged households.² This can be interpreted as modern version of aiming for a high-pressure economy.

In 2017, the BoJ discussed whether monetary policy should aim for high-pressure economy. The tentative conclusion was that a somewhat overheated economy would help to raise productivity through capex and investment in human capital, but that aiming for a high-pressure economy through macroeconomic policies should not be the main tool to raise productivity, taking into account its costs. Such macroeconomic policies would raise the risk of financial imbalances. In addition, as the "Great moderation" revealed, continued high growth and low inflation could foster excessive optimism and financial risk-taking, which eventually could trigger a financial crisis though tighter financial regulation could reduce the likelihood compared to that period. Currently in Japan, we see

² Feiveson, L., Goernemann, N., Hotchkiss, J., Mertens, K., and J. Sim, "Distributional Considerations for Monetary Policy Strategy," FEDS 2020-073, 2020, FRB.

warning signs like the high total credit-to-GDP ratio and real estate loans-to-GDP ratio (Figure 3). However, this mainly reflects weak nominal GDP, and we do not see these as signs of accumulated financial imbalances. That said, going forward, we will pay increased attention to these financial imbalances. Furthermore, though macro-economic policies aiming for a high-pressure economy may provide benefits for disadvantaged households, they should only augment other policies to shift the income redistribution system, strengthen the social safety net and improve education. A high-pressure recovery may result in a deeper recession, which would hit those households the hardest.

Figure 3: Total credit to GDP ratio

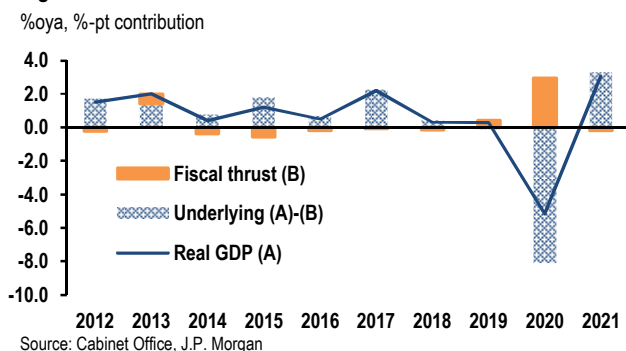


Yellen (2016)'s tentative conclusion: that other policies (rather than monetary policy) might be better suited to address damage to the supply side of the economy, was common sense.

Current policies are not aiming for a high-pressure economy

We don't expect Japan to shift to a high-pressure economy. First, though the Japanese government is maintaining expansionary fiscal stance in 2021 and this week the House passed a large budget for FY2021, the fiscal thrust would not become positive like the US (Figure 4).

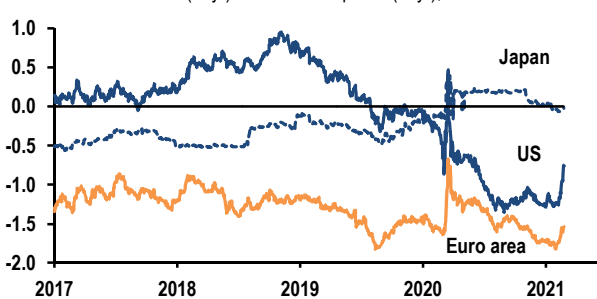
Figure 4: Real GDP and fiscal thrust



Second, in the financial markets the policy rate is close to the ELB, and yet inflation expectations are still weak. We expect no wage growth in 1H21, raising the risk that low inflation expectations will persist. Of course, the BoJ's YCC has a stronger pro-cyclical effect on the economy than standard asset purchases when economic growth and long-term rates firm like now. Long-term real rates are rising globally especially in the US and also in the Euro area, while real long-term rates in Japan are stable (Figure 5). But the real rates in Japan are still higher than that in the US. The BoJ's March "assessment" likely will pay close attention to the potential for [nimble easing when facing negative shocks in the future](#) by more flexibly operating the current QQE with YCC policy framework. We do not expect the BoJ to ease further, nor eliminate the side effects of its policy drastically by fundamentally changing the framework.

Figure 5: Real 10yr government bond rates by area

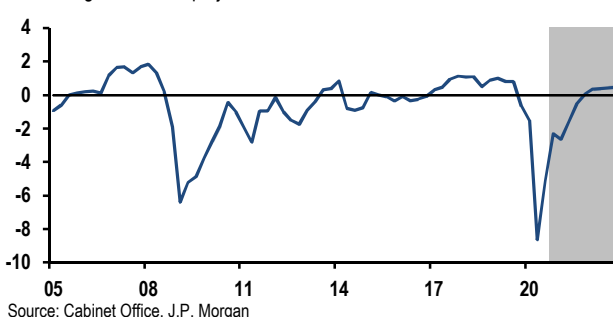
Government bond rate (10yr) - inflation swap rate (10yr), %



As a result, we expect the output gap to become positive in 2022, but don't expect the large positive gap to persist as in a high-pressure economy (Figure 6).

Figure 6: Output gap

%, shading shows JPM projection



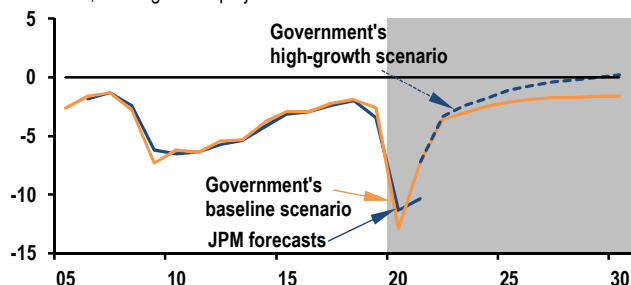
New type of policy collaboration

Even in Japan macroeconomic policies could focus more on raising potential growth, from a different angle. More concretely, to achieve sustainable growth and mild inflation while preventing the potential cost of financial imbalances and accumulated government debt, we suggest a new type of policy

collaboration between the government and the BoJ, aiming at making progress on structural reform. This, if successful, would induce capex, human capital investment, and economic growth. A rise in Japan's growth potential and r^* would make it easier for the primary budget to move from deficit to surplus in the foreseeable future and would strengthen monetary easing as well (Figure 7).

Figure 7: General government primary balance

% of GDP, shading shows projections



Note: JPM's projection is CY-based, while government's projections are FY-based, so slight difference exists for actual number until 2019. Source: Cabinet Office, J.P. Morgan

Fiscal policy is better focused on structural reform and slower consolidation...

Regarding fiscal policy, we think the fiscal support of households and firms economically harmed by COVID-19 should and will continue for the time being. Beyond that, market observers have long said that Japan should conduct “wise spending” to contribute not only to increasing demand but also to strengthening the supply side to raise r^* . However, it is difficult to define what “wise spending” is. At least we should not repeat the pattern of the early 1990s when the government increased the public work spending sharply with each recession, and labor productivity growth declined. This spending was regarded as social infrastructure as well as a support for construction employees in those days.

That said, it is probably more cost-effective to use fiscal spending as a catalyst for structural reform, especially after exiting the COVID-19 crisis, despite the difficulty in judging whether higher productivity growth at targeted firms will raise productivity growth at the macroeconomic level. Fortunately, the current Suga administration has strengthened its commitment to structural reform. Specifically, it has prioritized [reorganizing SMEs](#) to adjust to the new normal where non-face-to-face activities will prevail more than before the pandemic. Furthermore, it prioritized [digital transformation and carbon neutrality](#) to boost economic growth. Another important focus, in our view, is promoting investment in human capital, which has not been fully incorporated in the government's new vision. When firms change business model and promote digital transformation and carbon neutrality, a key way for industries to raise economic growth would be to allow workers to upgrade their skills and change jobs. We think the government

should [enhance human capital investment including continuing education and job training and provide job-placement assistance to increase employees' mobility](#) in part to resolve market failures. As population aging and decline constrain the economy, this will be all the more important.

We don't expect the government to discard its medium-term fiscal consolidation objective, but believe the pace of consolidation is key. During the initial period when the government uses fiscal policy to alleviate the suffering of disadvantaged households and firms as well as to promote structural reform, the decline in the primary deficit should be slow, unlike the government's tentative medium-term plan. If mild inflation and hopefully a rise in r^* materialize due to macroeconomic policies, fiscal consolidation could speed up.

...and monetary policy may have funds allocation channel to support reform

From the BoJ's side, discussion on raising potential growth has increased since last December (Kuroda 2020, Wakatabe 2021, and Nakamura 2021). A role the BoJ could play other than stabilizing the economy through maintaining low-for-long rates is to distribute funds to high growth areas. If this new role helps to raise r^* , the effectiveness of traditional monetary policy increases, which would be another incentive for the BoJ to collaborate with the government. This new role is unfortunately out of the scope of the BoJ's March 18-19 “assessment.”

Though the BoJ has generally avoided direct intervention in resource allocation, it has a history of doing so by introducing funds-provisioning measures to support strengthening the foundations for economic growth. This new potential role is [what we have continued to stress](#) with some revisions: It is worth considering for the BoJ to implement a special program to support financing for financial institutions that invest in stocks of firms to change their business models after COVID-19, and for financial institutions that lend money to firms investing in digital transformation, in line with the government's vision. These would be longer-term than the current special program for COVID-19.

That said, compared to our previous suggestion, the BoJ's involvement with the government's vision of achieving carbon neutrality will be more subtle. There is a global consensus that climate change will affect financial system stability and is a risk should be monitored. Climate-related risks can be classified into physical risks (risks to firms and households from the physical impact of climate change, such as weather-related disasters and rises in temperatures and the sea level) and transition risks (risks to firms and households from the transition to a lower-carbon economy, such as the introduc-

tion of climate policies, technological innovations, and changes in preferences).

[FSB \(2020\)](#) revealed that most financial authorities are trying to address these issues as part of a financial stability policy, not as a new mandate. The ECB's (and potentially the BoE's) approach to make transition risks an important issue for monetary policy is an exception. But it also could be important for central banks to adopt a positive stance toward issues critical to citizens to bolster its credibility rather than just pursuing its price stability objective—only 20% of Japan's citizens know that price stability is a BoJ mandate. Therefore, making climate change a monetary policy issue might be possible by linking this to support the universal and neutral objective of Japan's potential growth through the special program described above. Note, however, that purchasing "green" bonds, such as bonds of firms pursuing green strategies, raises a thorny issue of differentiating monetary policy from the activities of policy banks and the Government Pension Investment Fund.

From a prudential perspective, the mainstream view is that promoting the transition to a zero-carbon society is not a mandate for prudential regulation by financial authorities except for the European Banking Authority in the EU. From this standpoint, it is difficult to imagine that the FSA and the BoJ would take into account low carbon emissions in capital requirements, and further that the BoJ would promote lending to firms reducing carbon emissions with its prudential measures.

Economic Research Note

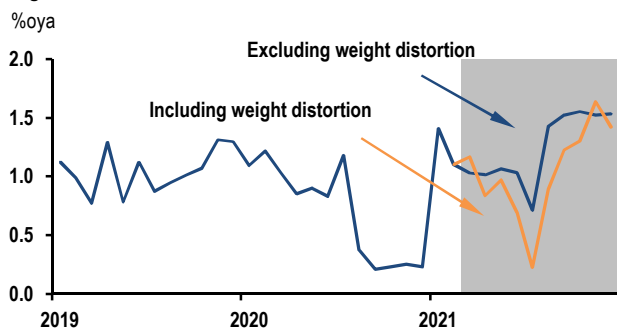
Euro area: Core inflation set for a V-shaped ride this year

- Euro area core inflation set for huge swings this year
- Some factors are temporary (sales period delays) or predictable (German VAT change), but the new HICP weights are a much more complicated source of distortion. Changes in weights are much larger this year than normal, reflecting the huge changes in consumption patterns caused by the COVID-19 crisis. Unsurprisingly, the weights of travel and leisure categories have fallen. But, these weight changes are interacting with the methodology Eurostat uses to aggregate the inflation basket to produce large, complicated and sometimes counter-intuitive swings in reported inflation. In this note, we present calculations of the impact for 2021 and note that 2022 is also likely to be significantly affected. As has often been the case in the past, German package holiday prices are a major source of this volatility.
- New HICP weight impact causing large and complicated intra-year swings, with distortions likely in 2022
- Weight changes could pull core inflation down to 0.2%oya and push it up to 1.6%oya in November

Euro area core inflation rose very sharply in January. Some of the drivers are temporary (sales period delays) or predictable (the German VAT change), but the new HICP weights are a much more complicated source of distortion. Changes in weights are much larger this year than normal, reflecting the huge changes in consumption patterns caused by the COVID-19 crisis. Unsurprisingly, the weights of travel and leisure categories have fallen. But, these weight changes are interacting with the methodology Eurostat uses to aggregate the inflation basket to produce large, complicated and sometimes counter-intuitive swings in reported inflation. In this note, we present calculations of the impact for 2021 and note that 2022 is also likely to be significantly affected. As has often been the case in the past, German package holiday prices are a major source of this volatility.

The impact of the new weights lifted Euro area core inflation by 0.4%-pt in January and this looks set to turn into a 0.5%-pt drag in the summer before turning into a renewed lift in November (Figure 1). Specifically, core inflation could fall to 0.2%oya in June and rise to 1.6%oya in November. Most of these swings average out for 2021, but understanding the monthly profile of these distortions is important for the interpretation of the monthly inflation prints.

Figure 1: Euro area core inflation



Why are the new weights such a problem?

The Euro area HICP basket includes nearly 300 items (non-public information is even more granular). The weights of these items in the basket are updated every year to reflect household consumption patterns the prior year. For example, the 2021 weights are based on 2020 consumption data. In normal times, these changes are fairly small. But due to large swings in consumption last year (e.g., closure of restaurants and bars, or reduced domestic and international travel), HICP weight changes this year are large by historical standards (Table 1).

Table 1: Main drivers of Euro area HICP inflation

% for weights, %-pt for weight changes

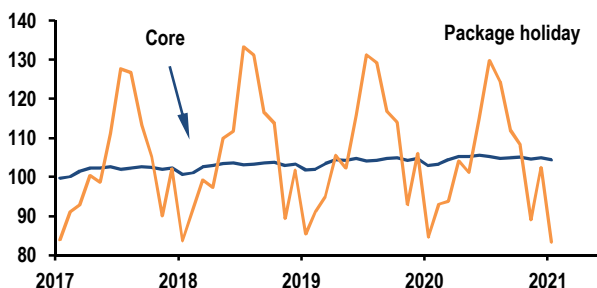
	Weights (%)			Changes	
	2019	2020	2021	2020	2021
Headline	100	100	100	0.00	0.00
Core	70.9	71.1	68.7	0.22	-2.34
Core goods	26.4	26.2	26.9	-0.18	0.70
Garments	4.3	4.2	3.9	-0.10	-0.39
Footwear	1.2	1.2	1.1	-0.03	-0.14
Services	44.5	44.9	41.8	0.40	-3.04
Airlines	0.8	0.9	0.4	0.05	-0.48
Pack. holiday	1.4	1.6	0.6	0.15	-0.94
Restaurants	5.7	5.7	4.1	-0.01	-1.58
Accom. serv.	2.0	2.0	1.3	0.05	-0.78
Food	19.0	19.1	21.8	0.06	2.69
Energy	10.1	9.8	9.5	-0.28	-0.35
Electricity	2.7	2.6	2.9	-0.06	0.24
Gas	2.0	1.8	1.9	-0.22	0.13
Liquid fuels	0.7	0.7	0.6	-0.06	-0.08
Fuels	4.3	4.4	3.7	0.09	-0.72

Source: Eurostat and J.P. Morgan

The new weights are causing problems because of the way the HICP index is constructed. One aggregation option would be to simply weight together the inflation rates (%oya or %m/m) of the 300 items. However, Eurostat aggregates the price (i.e., index) levels before working out the inflation rate. The price level of package holidays in particular swings particularly sharply during the year, causing the problem (Figure 2).

Figure 2: Core and package holiday prices

Index, 2015 = 100



In particular, package holiday prices are always low in January compared to their average during the year. But, this year the weight of package holidays in the core inflation basket is much smaller than in recent years. Therefore, the contribution of package holiday prices in January to the overall core price index actually increased in January as the low price level is given a smaller weight. The opposite will happen in the summer when the price of package holidays is always high but its contribution to the core inflation index will be smaller than normal due to the low weight. As a result, core inflation was distorted upwards in January and will be distorted downwards in the summer

The impact in January was 0.4%-pt

We used the near-300 price series released last week to calculate the impact of new weights on January inflation. Our calculation shows that Euro area headline inflation (0.9%oya) would have been 0.3%-pt lower and the 1.4%oya January core inflation 0.4%-pt lower if the weights had remained unchanged. In the details, the distortion is larger for services (a 0.5%-pt boost) than for core goods inflation (0.3%-pt).

At the country level, the distortion was largest in Germany, boosting its core inflation rate by 0.9%-pt. This estimate is in line with the [Bundesbank's work](#), which also confirmed that most of the distortion was due to package holiday prices. This is not surprising since the weight of package holiday prices is much higher than in the rest of the Euro area and therefore also fell by more due to the COVID-19 crisis. Meanwhile, the distortion in France was smaller at 0.2%-pt, while the distortion was not significant in Italy and Spain.

A V-shaped impact in 2021

How will the weight distortion evolve this year? We answer this question with a simulation that assumes that monthly price changes for all items remain the same each year to isolate the impact of the change in weights. Figure 4 shows the impact of the 2021 weight update for core inflation. For core inflation as a whole, weight changes trigger an upward distortion at the start of the year. The distortion then fades in the following months and turns negative from the spring, before becoming positive again in the latter part of the year. The pattern for core goods and services is quite different, especially around midyear. We did a similar exercise at the country level and find a larger distortion in Germany (Figure 5), which is in line with the Bundesbank's analysis. A similar pattern emerges in other countries, albeit on a smaller scale.

Same again in 2022, just upside down

If the pattern of consumer spending begins to normalize in 2021, then the HICP weights in 2022 will reverse some of the changes seen in 2021. Of course, there is still much uncertain-

ty about how exactly spending will recover during 2021 and where it will settle in 2022. However, we note that the distortion from the weights largely comes from its interaction with the level of package holiday prices during the year and therefore a significant impact is almost guaranteed in 2022, even if the weights only reverse half of the changes in 2021.

Figure 4: Impact of weight changes on Euro core inflation

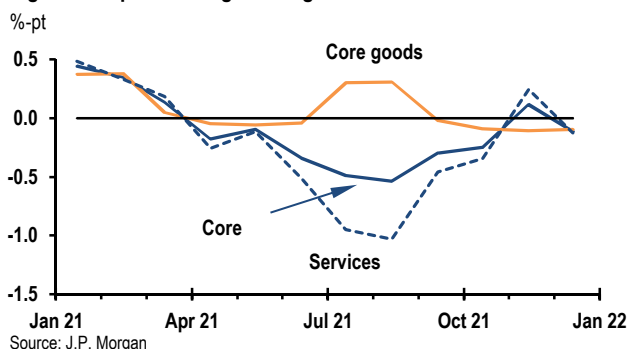
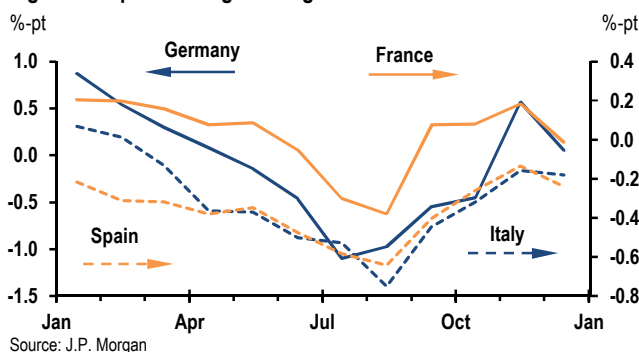


Figure 5: Impact of weight changes on core inflation



Taking a stab at the 2021 core profile

We have already discussed other factors that are distorting core inflation, such as the German VAT and the delayed sales period, in a [recent piece](#). We now have a better view of the distortions that the weight changes are likely to cause over time. Given the complexity of the calculation it will take some time to incorporate the changes suggested by this note into our forecasts. However, to give an indication of where the new profile could land, Figure 1 presents the impact this distortion is likely to have on core inflation. Core inflation jumped 1.2%-pts to 1.4%oya at the start of the year and declined by 0.3%-pt in February. The impact of the weight changes is set to turn negative in the summer, which will pull core inflation down to around 0.2%oya in July (the July level also suffers from a downward base effect as clothing prices rose sharply last year). The distortion then contributes to lift core inflation sharply through November. Clearly, it will be important to look through these swings when trying to interpret the underlying trajectory in the data.

Economic Research Note

Italy: Low-for-long greatly helps pullback from debt overhang

- Euro area debt jumped 15%-pts in 2020
- Italy stands out, with debt hovering above 150% of GDP this year and the next
- Persistent low-for-long rates environment instrumental in driving down Italian cost of debt to historical lows
- Below 2% average funding costs facilitate orderly deleveraging over the next few years

Sharply higher government debt ratios will be one of the most troublesome legacies of the pandemic, globally and regionally. When it comes to debt sustainability in the Euro area, Italy—with its outsized government debt expected to run above 150% of GDP this year and next—is the long-standing elephant in the room of the imperfect architecture of the Euro area (Table 1). We have already discussed separately our view that a gradual deleveraging is a challenging but manageable task even in the Italian case, provided that [fiscal rules adjust accordingly](#), and the recent announcement of a further suspension of the fiscal framework in 2022 certainly plays to that script. A crucial factor in our assessment is the policy environment characterized by both low-for-long rates and large-scale asset purchases. In this note, we take a closer look at the former, whereas in a companion note we will address the latter.

Table 1: Euro area fiscal parameters

% of GDP

	Budget balance			Debt		
	2019	2020	2021	2019	2020	2021
Euro area	-0.6	-9.1	-6.1	85.9	101.2	100.1
Germany	1.5	-4.8	-2.3	59.6	70.1	67.8
France	-3.0	-11.1	-7.4	98.1	118.1	117.7
Italy	-1.6	-9.5	-7.9	134.6	155.6	152.9
Spain	-2.9	-10.2	-8.5	95.5	117.1	119.5

Source: Eurostat, J.P. Morgan estimates

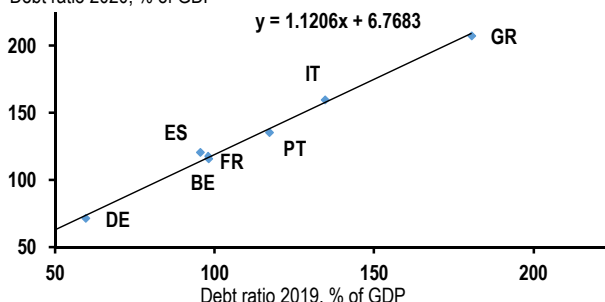
Higher debt for all, but more so for the usual suspects

The post-COVID-19 debt overhang is a broad global theme, and rating agencies already have signaled a willingness to accept this “new normal” as a temporary paradigm shift until a smooth deleveraging runs its course when economies rebound from the historical shock. The increase in debt ratios in the Euro area is proportionally higher where debt ratios were already high before COVID. This is not surprising, given that the snowball effect, i.e., the endogenous growth of debt due to

the difference between the average cost of debt and GDP growth ($r-g$), is proportional to the size of debt itself, and that the high-debt economies of France and Southern Europe have experienced deeper economic downturns than Germany and other core economies (Figure 1). Italy, in particular, stands out, given that its debt is set to hover above 150% of GDP through this year, after soaring more than 20%-pts in 2020.

Figure 1: Euro area government debt ratio

Debt ratio 2020, % of GDP

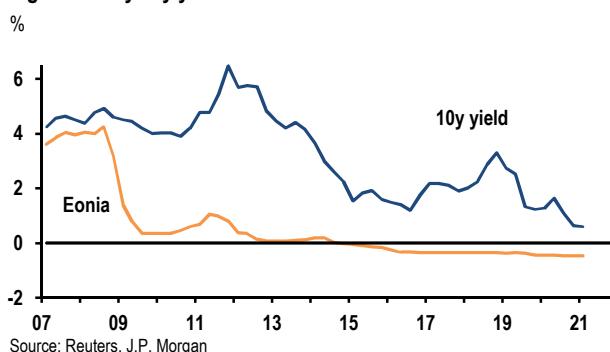


Source: Eurostat, EC AMECO, J.P. Morgan estimates

Slow and steady passthrough of market rates into the average cost of debt...

The ECB policy rate reached the ZLB at the end of 2012 and the NIRP policy was started in July 2014. Balance sheet policy in the form of asset purchases was put in place in March 2015, and the PEPP program was rolled out in March 2020. Before that, the creation of the OMT soon after Draghi’s “whatever it takes” speech in July 2012 marked the entrance of the ECB into a new era of creative policy-making, which in one way or another involved yield and spread compression beyond the short end of the curve.

Figure 2: Italy 10y yield vs. Eonia

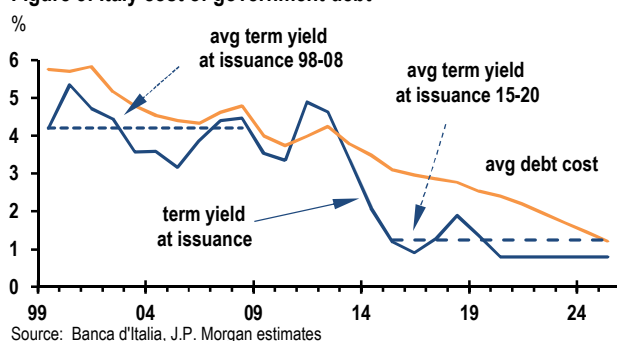


Source: Reuters, J.P. Morgan

The impact on Italian sovereign funding cost was dramatic over this period (Figure 2), despite ever-present Italy-specific risk occasionally pushing yields higher. Figure 2 shows the effect that the policy environment since 2012 has had on the average cost of funding the Italian government debt. The marginal refinancing yield, i.e., the yield at issuance for the average debt maturity, has fallen by 300bp from the first dec-

ade of the EMU to the 2015-20 period. In 2020, the average funding cost of Italian debt fell to 0.8%, even though government debt and market issuance rose to unprecedentedly high levels. Since the beginning of the year, the refinancing cost of Italian debt has fallen to new historical lows, below 0.3%.

Figure 3: Italy cost of government debt



...meets ECB commitment to a sustained and durable rise of inflation to target

The secular collapse in the marginal cost of funding has fed into the average cost of government debt very gradually, reflecting the maturity of debt, which has stood around 7 years over the last decade. This means that a 100bp shock to the yield curve has a contemporaneous (i.e., same year) impact on the government interest rate burden of only 16-17bp (at low deficits). In turn, this leads to a slow transmission of shocks to the cost of debt over time: it smooths negative shocks but also weakens the transmission of positive shocks.

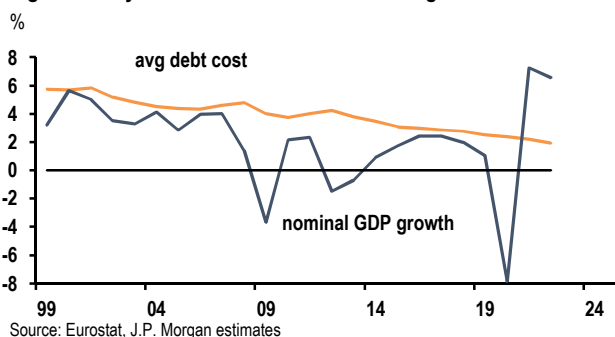
The ECB forward guidance makes the removal of its unconventional monetary policy measures conditional on a sustainable return of inflation to the target. This is complemented by the latest policy twist, whereby the ECB aims to maintain financing conditions favorable over an extended period of time (even though the ECB has been careful to signal that this is not equivalent to yield curve control). These factors support the notion of a very low for very long yield environment extending for several years. For instance, market expectations place the first policy rate hike in June 2024 (the recent bond-market sell-off briefly pushed this date to January 2024). With inflation still well below the target in 2023 according to our forecast, it may take until 2025 for inflation to return to 2%.

Against this background, the average cost of Italian government debt is set to keep falling for at least another 4-5 years, which would allow essentially complete passthrough. For instance, the average cost of government debt could fall to between 0% and 1% by 2026, assuming a stationary policy environment. Figure 2 shows a simulation based on a constant 0.8% refinancing cost fixed, i.e., at the 2020 average. Under this assumption, the average cost of Italian debt would fall to 2.2% in 2021 and to below 2% in 2022.

The shift in r-g sets the backdrop for a manageable return to pre-COVID debt norms

The low-for-very-long yield environment has spurred a strand of economic analysis that emphasizes the flow dimension of debt instead of the traditional stock perspective. Looking at flows, for a given level of debt, what matters is the fiscal cost, which in turn is proportional to $r-g$. A small and shrinking or even negative $r-g$ means that the fiscal cost of current deficits is low or even negative, in the sense that a fiscal expansion does not need to be financed by higher budget surpluses in the future. Of course, a rising debt ratio at some point raises the risk of insolvency and associated roll-over risk, but asset purchase programs tackle this risk when the central bank is credibly intervening as a buyer of last resort.

Figure 4: Italy cost of debt and nominal GDP growth



In sum, with the return of growth over the forecast horizon, a steadily falling refinancing cost of debt, and lack of significant inflation pressures, the condition $r < g$ is likely to be in place for an extended period of time. In Italy, this will be an unprecedented configuration (Figure 4), at least since the inception of the EMU (and actually well before that). Beyond the period of strong growth over 2021—when our optimistic forecast envisages 7% nominal GDP growth also on the back of the recovery fund—solid nominal growth near 3% would be enough to secure an endogenous decline in the debt ratio with a below-2% cost of debt.

In turn, this would allow a gradual fiscal consolidation over time, avoiding risks of excessive fiscal tightening, which we estimate could be limited to unwinding the emergency pandemics stimulus. We estimate that, in a stationary policy environment, a pullback of debt to pre-COVID norms would be manageable within the next 5-6 years. From this perspective, political stability and reforms matter a lot, and we think the Draghi government is probably the best—and possibly the last chance—for Italy to take advantage of the unique financial conditions prevailing at a time of low-for-long rates.

Economic Research Note

BoE: Next rate move is probably up, but not for a while yet

- The BoE has indicated NIRP will be available for use from 2H21
- But the MPC shifted to a neutral bias in February, following the improved outlook associated with the vaccine
- BoE to take another small hawkish step later this year, acknowledging that the next rate move will be upward
- But the BoE will be in no rush to remove stimulus, and we do not see the next rate hike until 2023

There is a wide range of views on the MPC about monetary policy at present, with some members concerned that a setback in the recovery could require negative rates later this year while others see risks of inflation overshooting the target. While NIRP will become an active tool from 2H21, the committee as a whole shifted to a more neutral stance at the last meeting. In this note, we look at how the MPC's collective opinion is likely to be evolving in light of recent developments, including this week's Budget and the recent sell-off in rates. We expect the MPC to make another hawkish transition over the coming months, at least implicitly acknowledging that some tightening of policy will be required over its three-year forecast horizon. We continue to think tightening is still some way off, however, with an inflation undershoot next year leaving 1H23 as our best guess for the timing of the first hike. A lot can still change by then, but the added fiscal boost for this year should at least steer the BoE further away from a rate cut.

Arguments for a hawkish transition

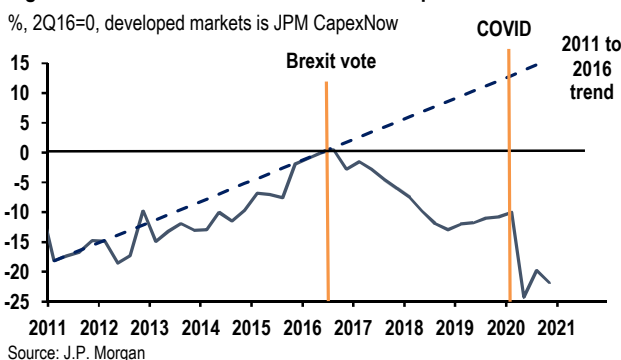
While the BoE has already highlighted sources of upside risk around its forecast, a few factors suggest the MPC will start to lean in a more hawkish direction in the coming months:

- **Greater insulation against job losses and a large near-term fiscal boost.** The BoE last month projected a 7.8% unemployment rate peak for 3Q, based on government plans at the time. This week's Budget announced fresh stimulus worth around 2.6% of GDP for the forthcoming year, including a six-month extension of the all-important wage subsidy scheme. Although fiscal support will be smaller than last year, a large part of this will relate to less demand for emergency schemes as the economy reopens. The UK's most reliable payroll measure of employment has also marked two consecutive surprise monthly gains, and we expect unemployment will significantly undershoot the

MPC's current projection for this year. Based on the latest fiscal easing, the OBR now expects the unemployment rate to peak at 6.5% this year. While the BoE had, in any case, expected a very sharp decline from the 3Q21 peak, a smaller rise in unemployment this year would support the BoE's existing expectation that the UK was already heading for a positive output gap by year-end.

- **Supply-side damage.** It remains too early to say how much lasting damage COVID-19 has inflicted on economic supply. The BoE has been a relative optimist, projecting longer-term scarring worth just under 2% of GDP. However, the data on business investment continue to show the UK falling yet further behind its trading partners, with a mountain to climb to regain any semblance of normality. Although the economic damage the UK experienced was greater than elsewhere when the pandemic hit, the recovery since then has continued to look underwhelming through 4Q (Figure 1). Investment is likely to receive a large boost from the business tax breaks announced alongside the Budget. But this is a temporary measure for this year and next, and comes alongside challenges from the new Brexit deal this year and then a large increase in the corporation tax from 2023. Investment would need to be very strong to compensate for its underperformance since 2016

Figure 1: UK business investment vs. developed markets



- **Higher global rates.** The sell-off in global rates over the past couple of weeks is small by historical standards, but we expect the uptrend in yields to continue this year, which would have relevance for the BoE. Unlike the ECB, BoE guidance regarding the use of asset purchases to influence yields has been explicit. The BoE has indicated it would only step up the purchase pace if market functioning were to worsen materially. So far, the global sell-off relates to a combination of higher expected growth and inflation. This is mostly good news that means the BoE is more likely to swim with the tide than implement fresh easing. As a small open economy, the UK's equilibrium policy rate is heavily influenced by global rates. Any indication that r^* could be rising would make the current UK monetary policy setting somewhat easier by default.

- **Forward guidance on the first hike.** It was only last August that the BoE introduced guidance about future rate increases, which was largely overshadowed by the discussion on negative rates at the time. The BoE's guidance still says, "The committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably." But its forecasts show these criteria being met from late this year. Financial conditions have tightened since then, but, equally, the March Budget has provided significant additional fiscal support (Table 1). The BoE's guidance is not a trigger for action, but does at least start a debate about the timing of the first hike. Unlike the Fed, the BoE is not aiming for inflation to overshoot its 2% target—and so should be less relaxed if this were to occur. And, unlike the ECB, there is no mandate change expected to steer the central bank away from tightening.

Table 1: BoE forecasts from February Report

%, figures refer to 1Q of each year shown, based on market rates at the time

	2021	2022	2023	2024
Output gap	-1.00	0.25	0.25	0.00
CPI	0.8	2.1	2.1	2.0

Source: BoE

But tightening probably still some way off

With so much uncertainty and the economy still in lockdown we don't expect the BoE to put higher rates on the agenda any time soon. But at the next forecast round, the Bank will, at least implicitly, have to make a judgement on the suitability of market pricing, which now shows the next hike coming in early 2023. The BoE tends to be agnostic about market pricing so far into the future. But, barring a downside shock, we would expect it to present forecasts that continue to show inflation hitting 2%, based on what the market is currently pricing in, i.e. implicitly acknowledging the next move in rates will be up. For the following reasons, however, we think the BoE will not go much further than this:

- **Lingering labor market slack.** Even as restrictions are lifted, most forecasters expect unemployment to rise further this year as the wage subsidy schemes are eventually withdrawn and displaced workers take time to find new jobs in a post-COVID world. Even though joblessness may fall back fairly quickly as the recovery proceeds, some labor market slack appears likely to remain well into next year. This may be a more tangible indication of spare capacity than broader output gap metrics. Were it not for a planned VAT increase for the hospitality sector next year, our models would point to inflation falling back slightly below the target next year. Assuming underlying wage growth remains on the soft side, this is likely to give the MPC room to pause for longer.

- **Longer-term fiscal tightening.** While the Budget offered significant new stimulus for this year and next, fiscal policy overall will still turn into a net drag this year, as emergency programs are either used less or wound down (Table 2). From 2023, tax increases will tighten policy further. The BoE will build this into its next forecast; it will weigh on the medium-term recovery after a stronger start. To the extent that growth outpaces what the OBR assumes in its projections this year, the Chancellor could yet decide to bring forward or introduce new planned tax increases—especially if it would allow less back-loading of measures just ahead of the 2024 election. We see this as something that could limit the often-mentioned upside risk of high household liquid savings driving a boom in consumer spending. The Chancellor could capitalize on a potential upside scenario by choosing to set the debt ratio on a clearer falling trajectory.

Table 2: Fiscal forecasts

% of GDP, assumes 0.6 fiscal multiplier

	20-21	21-22	22-23	23-24	24-25	25-26
Deficit	16.9	10.3	4.5	3.5	2.9	2.8
Structural primary deficit	15.5	8.8	3.4	2.4	1.9	1.8
Change	14.2	-6.7	-5.4	-0.9	-0.6	-0.1
Assumed fiscal thrust	8.5	-4.0	-3.3	-0.6	-0.3	-0.1
New measures in March Budget	0.3	2.6	0.3	-0.5	-1.0	-1.1

Source: OBR and J. P. Morgan

- **Balance sheet unwind may occur first.** The BoE is re-viewing its forward guidance on balance sheet unwind with Bailey indicating some shrinkage could occur prior to the first rate hike. It is unclear whether Bailey is referring specifically to gilts or the balance sheet more broadly, which includes other facilities such as TFS. Confidence over what balance sheet shrinkage would do is probably quite low, and if a tightening were required it is unlikely rate increases would be delayed for very long. But some tightening through the balance sheet could argue for a little less urgency on rates.
- **Risk management considerations and low equilibrium rates.** Even without a downside risk playing out, some MPC members have expressed caution about raising rates on risk management grounds. While the BoE's inflation target is symmetric, the power of its policy tools is not—i.e., due to the difficulties in providing further stimulus when rates are already very low. Notwithstanding the recent rise in global rates, other factors, such as Brexit and fiscal consolidation, are likely to weigh on the equilibrium policy rate—which, as a best guess, we would put in the 1.5-2.0% range. This implies that relatively little tightening by past standards would be required to deal with an unexpected inflation overshoot, which argues for more caution before delivering the first hike.

Economic Research Note

More SDRs from the IMF can help if designed right

- **The expected increase in SDR allocation by the IMF is an early sign of the US shift toward multilateralism**
- **But much of the increase in SDRs will go to creditor countries who do not need the increased liquidity**
- **Some of the larger EM economies, like Argentina and Turkey, nonetheless will benefit**
- **Low-income countries (LICs) chiefly need budget funding rather than liquidity support**
- **A transfer mechanism is being designed but should be based on grants not loans to meet the LICs' funding needs while ensuring medium-term solvency**

At the start of the pandemic, additional SDR allocations was seen as a way to expand global liquidity and increase FX reserves of countries in need. But [as we had noted then](#), an expansion of global liquidity was unlikely to help the truly needy. In the event, the proposal didn't find much support in the G-20 as the US and other large creditor countries opposed it because of the likely ineffectiveness. Also, access to FX liquidity had improved across EM, including low income countries (LICs).

Now the proposal has found a new lease on life with the new US administration supporting the expansion [as a way of burden sharing by creditor countries](#) consistent with its policy to shift toward US-led multilateral solutions. However, to be an effective burden-sharing instrument, part of the additional SDRs will need to be redistributed to the LICs that, given their small quotas at the IMF and wide budget deficits, are unlikely to benefit much from the expansion per se.

And therein lies the rub. About 12 of the indebted LICs have already used 200%-300% of their quota and about half have used more than 100%. LICs can get access to IMF concessional funds, mainly the Poverty Reductions and Growth Trust (PRGT), but any material increase in borrowing from the IMF, even on concessional terms, could render debt and debt service unsustainable. Consequently, appending the amount to be redistributed to an existing IMF lending program such as the PRGT might not be a solution without debt restructuring.

Instead, in our view, the redistributed SDR allocation could be put into a separate trust fund within the IMF that is earmarked for pandemic-related and other social expenditures but provided as grants in a standard PRGT country program. In this way, the debt sustainability issue can be mitigated while at the same time reforms and policy changes that boost

growth and safeguard macroeconomic stability can be implemented under the umbrella of an IMF program.

The proposed increase in SDR allocation

Following the G-20 meeting last week, chatter around an additional SDR allocation has increased. While a formal announcement by the IMF is unlikely before the April meetings, a US\$500bn increase looks likely. If this happens it would be the biggest increase the total SDR allocation ever, raising the outstanding amount to an equivalent of almost US\$800bn. As a reminder to readers, the value of the SDR is based on a basket of five currencies: USD, EUR, CNY, JPY, and GBP.

The new SDR allocation will increase countries' FX reserves. However, as the allocation will be distributed based on existing IMF quotas, the lion's share will be taken up by DM (US\$290 billion) and EM BRIC (US\$71bn) that already have adequate reserves. The increase for PRGT-eligible countries would be just US\$16.1bn.

Table 1: Selected EM beneficiaries by absolute amount
 US\$bn

	FX reserves	New SDR allocation	Reserve ch, %
China	3356.5	32.1	1.0
Brazil	355.6	11.6	3.3
Mexico	199.1	9.4	4.7
Turkey	93.3	4.9	5.3
Indonesia	135.9	4.9	3.6
Poland	154.2	4.3	2.8
Venezuela	6.4	3.9	61.3
Iran	-	3.8	-
Argentina	39.4	3.4	8.5
South Africa	55.0	3.2	5.8
Nigeria	35.4	2.6	7.3
Egypt	38.5	2.1	5.6
Pakistan	18.3	2.1	11.7
Ukraine	29.1	2.1	7.3

Source: IMF, J.P. Morgan; US\$500bn increase in total SDRs, FX reserves in Dec-20 or earlier

For some EMs it's a lucky break

Among the larger EM economies, the BRICS will benefit the most, led by China receiving around US\$32 billion (Table 1). Among the countries that face external funding pressures, Argentina, Iran, Nigeria, Turkey, Ukraine, and Venezuela will gain the most. For some of them, the added reserves could provide much-needed breathing space and time to adjust policies. Whether they will use this space judiciously or simply postpone the needed adjustment is an open question.

But not much help to most LICs

While for LICs, the quota increase appears large relative to existing stocks of gross reserves, by itself the added SDRs fall short of their budget funding and/or external needs (Table 2).

Relative to gross FX reserves, the biggest beneficiaries are countries like Zimbabwe, which would get five times its reserves, and Zambia, almost doubling reserves (Table 2). LICs in general get a significant boost to their reserves as current stocks are low. And, with improved market conditions, their external funding needs have decreased. However, the amounts are generally small in relation to LICs' and other EMs' fiscal deficits and budget funding remains an issue (Table 2).

Table 2: SDR increase offers limited relief for LICs

US\$bn, 2021

	CA bal	Fiscal bal	New SDR allocation	FX reserves
Angola	-0.7	-1.4	0.8	14.9
Ecuador	1.7	-5.0	0.7	7.2
Egypt	-13.5	-28.2	2.1	38.5
Ghana*	-2.4	-6.9	0.8	7.9
Iraq	-8.0	-25.6	1.8	60.0
Kenya*	-4.8	-8.6	0.6	13.2
Mozambique*	-1.4	-0.7	0.2	3.9
Nigeria*	-4.1	-29.4	2.6	35.4
Pakistan*	-4.7	-22.4	2.1	18.3
Sri Lanka	-1.8	-7.9	0.6	5.7
Tunisia	-3.5	-2.1	0.6	9.6
Ukraine	-4.8	-7.1	2.1	29.1
Zambia*	0.1	-1.7	1.0	1.2

Source: IMF, J.P. Morgan; * PRGT/IDA countries; FX reserves as of Dec-20

Burden sharing comes to the fore

This is where the G-20's appeal for burden-sharing comes to into play. While the term has been used to imply different things in different contexts, e.g., exhorting China and other bilateral creditors to restructure debt, in this case the focus is on creditor countries setting aside or "donating" a part of the new SDRs for assistance to LICs in need, both from the impact of the pandemic and high indebtedness. This can provide significant additional lending resources for LICs. For example, 10% set aside by the G-20 would increase funding to LICs by US\$34bn, more than doubling the US\$21.3bn they could receive in additional SDRs.

Thinking out of the box

While the details of the redistribution mechanism are still being worked out, adding these resources to the PRGT and lending the additional resources via concessional loans might not be effective for two reasons. First, a number of the highly indebted countries have already used up a substantial portion of their cumulative maximum access (Ghana, Pakistan, and Cote d'Ivoire have used 200%-275% of their quotas and half of LICs have used more than 100%) and second, many of them are already at high risk of being insolvent (Table 3). Outside of LICs, Argentina, Egypt, and Ecuador have exceptional access (above 435% of quota), while Ukraine, Mongolia, and Tunisia have used more than 300% of their quota.

Consequently, alternative arrangements than just increasing the resources under PRGT need to be contemplated. One such arrangement is to create a separate trust fund for the donated SDRs. This trust could be earmarked for pandemic-related spending and other needed social expenditures (e.g., associated with ESG and SDG categories). Countries that enter into a PRGT program with the IMF would then get access to these funds as grants. Conditionality on the SDR trust could be separated or treated as part of the PRGT-linked program. The IMF could then arguably claim that SDR trust grants are effectively a form of debt write-off on LICs' existing loans and ask other donors and the private sector to reciprocate with equal treatment as envisaged in the G-20 common framework.

Needless to say, this is not a panacea for the LICs in need. Even with grants, it is likely that several LICs will have to undergo additional debt restructuring. We are fully aware that an alternative proposal might need to be ratified by legislatures in some of the creditor countries where its passage could well face serious domestic political opposition. However, the burden of just relying on debt restructuring to help the LICs would be lessened and, importantly, environmental, social, and developmental spending would be protected.

Let's give burden-sharing a chance

Politics changes economics. In this case, the focus of the new US administration on multilateralism has opened this opportunity. Unlike in the GFC, the G-20 was noticeable in this pandemic only by its absence. We think this is an opportunity for the G-20 (and the IMF) to make their presence felt more than just through DSSI. The motivation for an SDR allocation has changed from its original intent of creating global liquidity. But doing so for burden-sharing is as noble an objective if it is allowed to work.

Table 3: Latest debt/GDP and debt sustainability

%

	Debt/GDP		Sustainable debt?
	2020	2021	
Angola	134.2	119.9	Yes, but very high distress risk
Ecuador	66.4	66.2	Yes, with high probability
Egypt	90.2	93.0	Yes, but not high probability
Ghana*	76.7	74.7	Yes, but high distress risk
Iraq	83.1	83.0	Yes, but reforms needed
Kenya*	66.4	70.5	Yes, but high distress risk
Mozambique*	121.3	123.5	Yes, in debt distress
Nigeria*	34.4	34.3	Yes, but high risks
Pakistan*	87.2	86.0	Yes, but increased risks
Sri Lanka	98.3	98.3	No report in 2020 or 2021
Tunisia	87.6	91.2	Unsustainable unless program
Ukraine	65.7	64.3	Yes, but high risks
Zambia*	119.6	116.5	Unsustainable, high distress risk

Source: IMF WEO and/or IMF reports; * PRGT/IDA countries

Economic Research Note

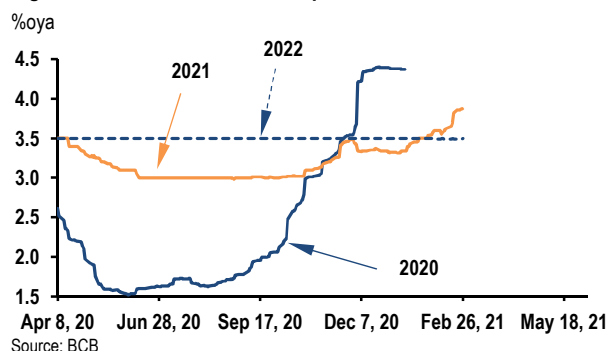
What to expect from inflation expectations in Brazil?

- Inflation rose quickly in the last six months, and 2021 inflation expectations are also on the rise
- Our models suggest that inflation expectations are likely to remain high in the short run
- Rising inflation expectations, policy uncertainty and tighter global conditions require monetary policy normalization
- Otherwise, medium-term inflation expectations may de-anchor

Inflation in Brazil surprised the consensus and BCB forecasts last year, rising from a 1.9%o/a low in mid-2020 to more than 4.5% by year-end. This surprise mainly was driven by three factors: stronger-than-expected demand due to the cash transfers; the quick rebound in commodity prices; and the deeper-than-expected BRL depreciation that led to greater-than-expected pass-through to consumer prices.

While those effects tend to be temporary, when combined with the recent rise of policy uncertainty in Brazil and the tightening in global financial conditions, they may have important consequences. Considering higher past inflation, a new round of cash transfers, further commodity price increases, and tighter financial conditions that are leading to another round of FX depreciation, inflation expectations started to drift higher recently. While 2022 inflation expectations remain anchored, for 2021 expected inflation is now above the 3.75% target—we look for even higher 4.3% inflation—after finishing 2020 above the 4% target (Figure 1).

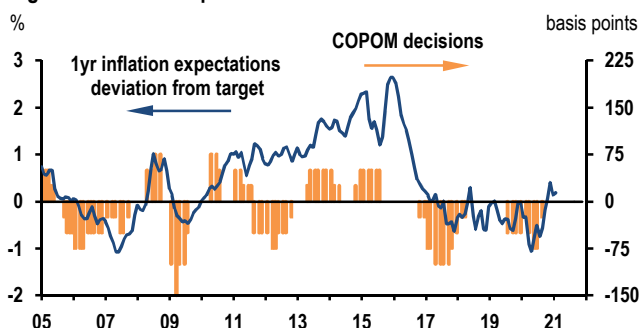
Figure 1: Consensus inflation expectations



In the past, with the exception of the 2012-16 period, deviations of inflation expectations from the target were associated with the direction of monetary policy decisions (Figure 2). In fact, the current COPOM board has emphasized the im-

portance of inflation expectations in their decision-making process by removing the forward guidance back in January because inflation expectations were sufficiently close to the inflation target over the monetary policy horizon.

Figure 2: Inflation expectations and COPOM decisions



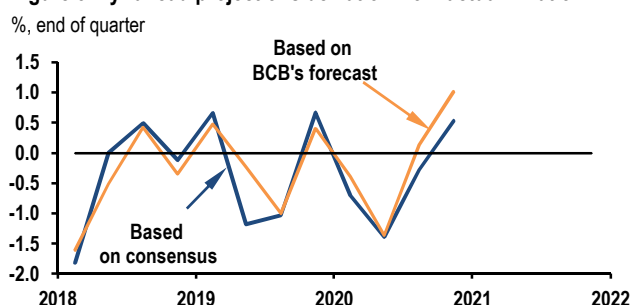
This raises important questions on how inflation expectations will behave in the coming months and how the central bank will react. Leveraging [previous research on the determinants of inflation expectations](#), we build a new model to predict how inflation expectations might behave in this environment. We conclude that 1-year-ahead inflation expectations are likely to continue drifting away from the target in the short run, which would require tightening from the central bank to secure a swift convergence. We think that this reinforces our above-consensus call that the COPOM will hike SELIC rate [to 5.5% this year and reach 6.0%](#) at the beginning of 2022.

Forecasting is a complicated profession

Five years ago, inflation expectations were also under scrutiny because they were falling from elevated levels. According to our behavioral model developed back then, which included a constant, the SELIC rate, and BRL changes, inflation expectations were set to decline further. Indeed, they continued falling even more than we predicted, possibly because actual inflation was lower than expected while growth disappointed.

Now, as we described above, inflation expectations appear to be trending upwards. As in 2016, a factor that may have contributed to the recent upward trend in inflation expectations is that actual inflation has come in higher than expected, in general. If we compare actual inflation and the 1-year inflation expectation lagged one year (dubbed the “inflation surprise” henceforth), we can see that after two years of mostly downward surprises, in the last quarter inflation was higher than predicted a year before. When we compare with the BCB’s forecasts, which use the Focus consensus forecasts for BRL and the SELIC as inputs, the upside surprise happened in the last two quarters of 2020 (Figure 3).

Figure 3: 1yr ahead projections deviation from actual inflation*



Source: BCB, IBGE and J.P. Morgan *Lagged according to the horizon.
1Y ahead expectations are lagged by a year

Inflation expectations tend to increase...

With that in mind, we add a measure of the inflation surprise (based on consensus forecasts given the length of the series) to the model to investigate how relevant they were for determining inflation expectations. Another potential innovation to the model is that, instead of one constant for the whole period of investigation, we add four constants for different periods of the last 15 years. Finally, we now model 1-year-ahead inflation expectations as a deviation from the target for that period.

Even though there is some evidence that these surprises are followed by revisions to inflation expectations, we found in our model that inflation surprises are on the borderline of significance for predicting future expectations. Also, as in our previous model, current exchange rate movements have no clear influence on those expectations either. In addition, the different constants suggest that there was no “premium” on inflation expectations in recent years of policy management, but there are indications of a relevant “premium” before, particularly in the early years of the last decade (Table 1).

Table 1: Modeling inflation expectations, 1Q05-4Q20

Dependent variable: 1-year ahead inflation expectations deviation from target; OLS; HAC standard error

Variables	With inflation surprises		Without inflation surprises	
	Coefficient	p-value	Coefficient	p-value
Dummy/Constant 1Q05-4Q10	0.43	0.04	0.59	0.00
Dummy/Constant 1Q11-2Q16	0.87	0.00	0.91	0.00
Dummy/Constant 3Q16-4Q18	0.23	0.16	0.19	0.14
Dummy/Constant 1Q19-4Q20	0.02	0.88	0.04	0.69
Lagged IE deviation from target	0.45	0.00	0.56	0.00
Lagged real ex-post SELIC rate	-0.05	0.01	-0.07	0.00
BRL change	0.56	0.36	0.72	0.22
Inflation surprise*	0.11	0.06	-	-

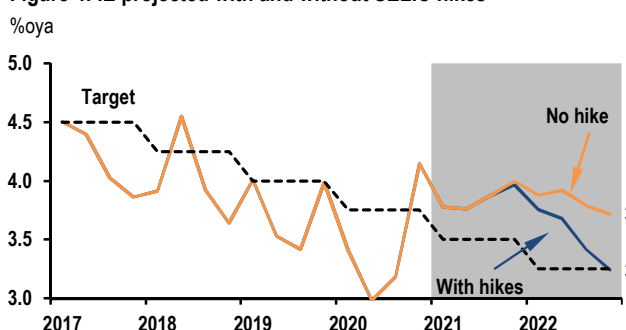
Source: J.P. Morgan.

*Measured by realized inflation minus 1-year-ahead IE lagged in 1 year

Based on the second model (without inflation surprises), we project how inflation expectations will behave. In a scenario in which the central bank keeps the SELIC rate stable at 2%, our model suggests that 1-year-ahead inflation expectations

would remain high for the foreseeable future. However, when we add the hypothesis that the SELIC rate is hiked to 5.5% this year and 6% early next year, inflation expectations can converge back to the target (Figure 4). Of note, the model with the inflation surprises shows similar results, albeit the difference between the scenarios is smaller.

Figure 4: IE projected with and without SELIC hikes*



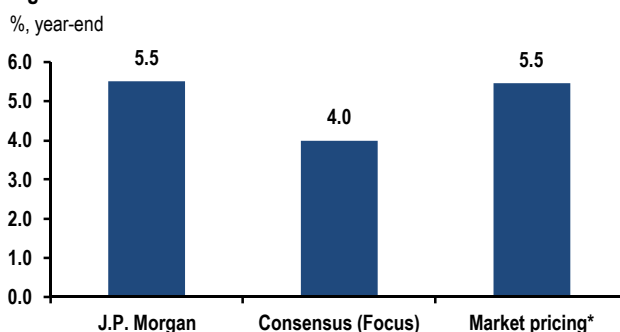
Source: BCB, IBGE and J.P. Morgan *Our scenario vs. stable at 2%

... and monetary policy should respond

While the model does not capture important aspects of inflation expectations, such as ex-ante credibility, it helps to illustrate why we think that the central bank would need to hike the policy rate this month and throughout the year. In our view, even though 2022 inflation expectations are still at the target for next year, we fear other factors may lead to a more permanent de-anchoring of inflation expectations. For example, we have been highlighting that the recent [rise in policy uncertainty](#) should lead BCB to adopt a more hawkish approach, particularly as tighter global financial conditions add to the inflationary risks coming from higher past inflation and rising commodity prices.

For these reasons, our findings reinforce our above-consensus scenario that BCB will hike the SELIC rate toward 5.5% this year (Figure 5) to avoid a de-anchoring of inflation expectations, starting with 50bp at this month's meeting, and ending the cycle at 6% in 1Q22.

Figure 5: SELIC rate at the end of 2021



Source: J.P. Morgan *As of March 4, 2021

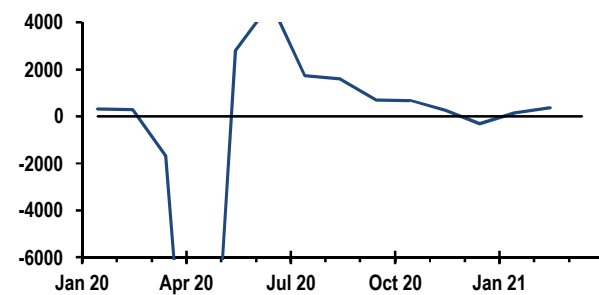
United States

- **With virus drag easing, nonfarm employment jumped 379,000 in February and u-rate ticked down to 6.2%**
- **But auto sales fell in February, a sign bad weather temporarily dented the recovery**
- **Fed chair Powell didn't push back against recent rise in rates**
- **We forecast a 0.5% CPI jump in February, with core increase modest at 0.1%**

Nonfarm employment beat expectations in February, with 379,000 jobs added during the month. This was the strongest monthly increase since last October and it looks consistent with our view that the labor market recovery has gotten back on track after the intensifying spread of COVID-19 late last year temporarily depressed activity. The 545,000 increase in nonfarm employment reported across the first two months of the year has more than reversed the 306,000 drop in employment reported for December (Figure 1). Separate jobless claims data also point to recent improvement in the labor market, with initial claims filings generally trending lower after they moved up late last year and early in 2021.

Figure 1: Nonfarm employment

Monthly change, 000s, sa



Source: BLS, J.P. Morgan

We still think that the stage is set for strong growth this year. Vaccine distribution and warmer weather should reduce the virus-related drag over time. And we think the stimulus package approved last December will continue to support the economy and that [another stimulus package](#)—that is currently being debated in the Senate—is likely coming soon for additional support. All that said, there could be some hiccups along the way for the broader recovery, and we see signs that severe winter weather and supply chain issues are denting some parts of the economy. Automaker reports this past week indicated that unit auto sales dropped 5.7% in February, and it looks like manufacturing output declined during the month, in part due to weakness in the [auto sector](#). Several “alternative data” sources show [clear signs of weather-related disruptions](#)

in Texas and neighboring areas, with some of them [recovering strongly](#) more recently once the weather normalized.

Developments in financial markets have been in focus lately and raise the question whether or not [FOMC communication is currently effective and being understood correctly](#). In Fed chair Powell’s remarks on Thursday, he didn’t push back against the recent increase in rates, and it will be important to monitor related market moves and Fed communication over time. The inflation data are very important for Fed policy, and the upcoming February CPI should be the main economic release next week. For this report, we expect a 0.5% jump in the headline index, largely due to a surge in energy prices. But we expect the core index to increase only modestly, up 0.10% in February.

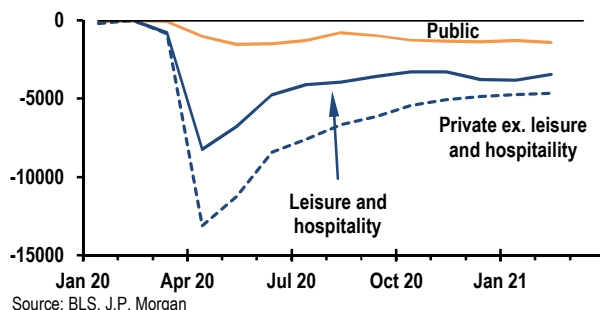
Job gains back in gear

Nonfarm employment increased by 379,000 in February (Figure 1). This was almost double expectations and likely would have been even stronger without the depressing effect of unseasonably bad weather in parts of the country. Revisions to prior months now show a bigger jobs dip in December (-306,000) and a firmer recovery in January (166,000). The industrial composition of employment growth displays the clear imprint of the virus on the economy: restaurant and bar jobs increased by 286,000 last month, recouping some of the 390,000 positions lost in the last two months of 2020. The unemployment rate ticked down to 6.2%, a tenth lower than expected. The participation rate was unchanged at 61.4% and hasn’t moved much since last summer; this figure was around 63.0% before the pandemic. The average workweek suffered a big move down from 34.9 hours to 34.6 hours; this data point often gets hit in periods of bad weather. Average hourly earnings increased by 0.2%. Overall this was a pretty solid report, and we expect even stronger numbers in coming months as the incredibly powerful tailwind of reopening should support some rather large job growth figures.

In the details of the establishment survey, government employment fell by 86,000 last month after increasing by 76,000 in January. Much of this up-and-down pattern is likely an artifact of seasonal adjustment. Private payrolls increased by 465,000 last month. Leisure and hospitality, which includes restaurants and bars, led the way higher with 355,000 new jobs. Employment in this industry is still 3.5 million below where it was this month last year, which accounts for a good share of the 9.5 million overall jobs shortfall (Figure 2). Construction employment fell by a hefty 61,000 last month, and this sector of the economy usually gets hit hard when the weather is unseasonably poor, as it was in Texas and other parts of the country.

Figure 2: Select sectors of nonfarm employment

000s, sa, change since February 2020



Turning to the household survey, the decline in the unemployment rate caused the employment-to-population ratio to tick up to 57.6%, a welcome increase but still 2.5%-points below its year-ago level. The number of persons who reported themselves not at work due to bad weather was 939,000, well above the 309,000 average for February (while this is further indication of the depressing effects of the weather, one shouldn't necessarily add 630,000 to the headline to get the "true" number). The number of job losers not on temporary layoff (or permanent job losers) was unchanged at 3.5 million last month and has been stuck around this level for the last six months. While the lack of progress on this figure is a little disappointing, the level of permanent job losers is still only about half of what it was in the wake of the Great Recession.

Not all roses for February

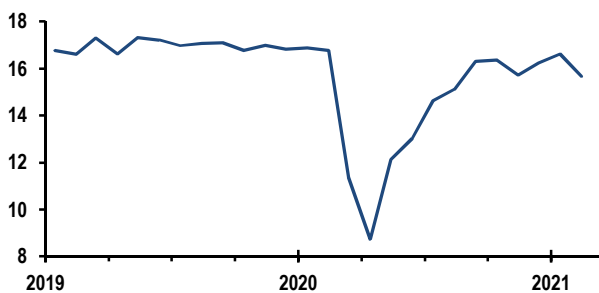
As mentioned above, there are signs that the weather weighed on the economy in February, despite the strong job growth reported for the month.³ The weakness in some of the construction-related figures signals that activity in the housing market and some other related sectors took a hit in February, and softness in the manufacturing sector also suggests that weather and/or supply chain issues may have weighed on production. This week's auto sales data also point to a drop in consumption in February, with the sales rate falling from 16.6mn saar in January to 15.7mn (Figure 3).

We don't have much other hard activity data for February from the more traditional government statistical agencies at this point, but we expect weakness to be evident in many of these figures as they are reported over time. Performance has varied across the February survey data so far, and we should keep in mind that high readings on supplier deliveries (likely

tied to supply chain issues and/or weather-related disruptions) have been boosting some of the headline composite figures.

Figure 3: Unit auto sales

Mn, saar



A solid January

While we don't have a lot of data for February so far, we do have a pretty complete picture of the economy in January, including this past week's releases on construction spending, factory goods, and trade. Overall, it looks like growth momentum was solid early this year, due in part to fiscal stimulus tied to the package passed late in December.

Construction spending increased 1.7% in January, with this figure above expectations and upward revisions reported for earlier data. Growth in private residential construction continues to easily outpace growth in the other main categories, but public spending also has picked up lately, and even private nonresidential construction increased somewhat in January despite a very weak trend over the past year.

The factory goods report showed downward revisions to the January data for the key core capital goods series relative to the advance durable goods report, but the updated figures still marked a strong increase in shipments (1.8%) and a solid gain for orders (0.4%). Separately, the trade deficit widened in January with a larger increase in imports (1.2%) than exports (1.0%), and we think that net exports are on track to subtract from GDP growth in 1Q.

³ People are classified as employed in the establishment survey if they received pay for any part of the pay period associated with the reference week, and with the severe weather coming late in the reference week, we think that the employment count likely was less impacted by the weather than some other variables.

Data releases and forecasts

Wed	CPI				
Mar 10	%m/m, sa, unless noted				
8:30am		Nov	Dec	Jan	Feb
	Total	0.2	0.2	0.3	<u>0.5</u>
	%oya (nsa)	1.2	1.4	1.4	<u>1.8</u>
	Core	0.17	0.04	0.03	<u>0.10</u>
	%oya (nsa)	1.6	1.6	1.4	<u>1.3</u>
	Core services	0.2	0.0	0.0	
	Core goods	0.0	0.1	0.1	
	Food	0.0	0.3	0.1	<u>0.1</u>
	Energy	0.7	2.6	3.5	<u>6.0</u>
	Housing	0.3	0.2	0.0	
	Owners' eq.rent	0.05	0.14	0.14	<u>0.15</u>
	Rent	0.08	0.11	0.11	<u>0.13</u>
	Lodging away from home	2.8	-0.3	-1.9	<u>2.2</u>
	Apparel	0.7	0.9	2.2	<u>0.3</u>
	New vehicles	0.0	0.4	-0.2	<u>-0.3</u>
	Used vehicles	-1.4	-0.9	-0.9	<u>-0.2</u>
	Public transportation	2.5	-1.0	-1.7	<u>0.7</u>
	Communication	0.0	0.0	-0.1	<u>0.0</u>
	Medical care	-0.2	-0.1	0.4	<u>0.0</u>

We estimate that the consumer price index (CPI) increased 0.5% in February. With energy prices continuing to climb during the month, we forecast that the energy CPI jumped 6.0% in February. We also look for another increase in food prices, with the food CPI rising 0.1%. Away from food and energy, we forecast that the core price index rose 0.10% in February. This would be a step up from the monthly changes reported for December and January but would remain softer than the growth trend reported before the start of the pandemic.

The recent weakness in the core CPI was partly due to declines in prices for lodging and airfares. These prices fell sharply early in the pandemic around when travel activity dropped off, and we have yet to see a substantial rebound in prices to date, with prices declining again in both December and January. But we think that prices will climb over time as the related activity normalizes and we expect lodging prices to be up 2.2% in February and public transportation prices to rise 0.7%. The pickup in these measures in February should account for much of the firming in the overall core CPI relative to the soft readings for December and January.

We also look for apparel prices to continue to rebound from their pandemic-related drop, with the apparel CPI up 0.3% in February. The main rent measures should also keep moving higher over time even though the pace of inflation has cooled since the start of the pandemic. For February, we forecast that tenants rent increased 0.13% while owners' equivalent rent rose 0.15%.

On the downside, vehicle prices surged throughout much of the second half of 2020 due in part to supply issues, but prices have come down somewhat in recent months. We look for continued softening in prices, with new vehicle prices slipping 0.3% in February and used vehicle prices declining 0.2%. Medical care prices jumped in January, but we think that the underlying trend is much weaker, and we expect basically no change in the related CPI measure in between January and February.

Thu	Jobless claims					
Mar 11	Thousands, sa					
8:30am		<u>New claims (wr.)</u>		<u>Continuing claims</u>		<u>Insured</u>
		Wkly	4-wk avg	Wkly	4-wk avg	Jobless, %
	Dec 26	782	836	5072	5275	3.5
	Jan 2	784	816	5175	5192	3.6
	Jan 9	927	825	4975	5105	3.5
	Jan 16 ¹	875	842	4785	5002	3.4
	Jan 23	812	850	4691	4907	3.3
	Jan 30	812	857	4558	4752	3.2
	Feb 6	848	837	4520	4639	3.2
	Feb 13 ¹	834	827	4419	4547	3.1
	Feb 20	736	808	4295	4448	3.0
	Feb 27	745	791			
	Mar 6	725	760			

1. Payroll survey week

We forecast that initial jobless claims in regular state programs fell 20,000 to 725,000 during the week ending March 6. We think that the vaccine rollout and downward trend for new COVID-19 cases should allow economic activity to keep picking up over time and that this will result in a downward trend for jobless claims filings through the volatility in the weekly series.

Fri	Producer price index				
Mar 12	%m/m, sa, unless noted				
8:30am		Nov	Dec	Jan	Feb
	Final demand	0.1	0.3	1.3	<u>0.4</u>
	%oya (nsa)	0.8	0.8	1.7	<u>2.7</u>
	Core	-0.1	0.1	1.2	<u>0.2</u>
	%oya (nsa)	1.4	1.2	2.0	<u>2.6</u>
	Energy	1.3	4.9	5.1	<u>4.3</u>
	Core goods	0.2	0.5	0.8	<u>0.3</u>
	Services	-0.2	-0.1	1.3	<u>0.2</u>
	Construction	0.1	0.1	0.2	<u>0.0</u>
	Intermed. processed gds	1.3	1.4	1.7	
	Core intermed. processed	0.1	1.2	1.8	

We believe that the producer price index (PPI) increased 0.4% in February. PPI inflation was pretty firm in January, with the headline up 1.3% and gains in the main underlying components (energy, food, and core). We think that energy prices will post another solid increase in February (4.3%) based in part on related spot prices, and we also look for another increase in food prices, with a 0.4% move up. We also look for another increase in the core PPI in February, but we think that the jump in prices reported for January (concentrated in services pricing) reflected some one-time factors that will not be repeated in February, and we expect a much more modest and trend-like gain for the core PPI in February (0.2%).

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

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Economic Research**Global Data Watch**

March 5, 2021

J.P.Morgan

Fri Consumer sentiment

Mar 12 Michigan preliminary

	Dec	Jan	Feb	Mar
Univ. of Mich. Index (nsa)	80.7	79.0	76.8	<u>80.0</u>
Current conditions	90.0	86.7	86.2	
Expectations	74.6	74.0	70.7	
Inflation expectations				
Short term	2.5	3.0	3.3	
Long term	2.5	2.7	2.7	

We forecast that the University of Michigan consumer sentiment index increased 3.2pts to 80.0 in the preliminary March report. The separate measure of consumer attitudes reported by Bloomberg has been firming lately and we think that the University of Michigan index will also show some recent improvement in consumer sentiment. More generally, we think that sentiment will improve as the drag from COVID-19 fades over time with new cases coming down and vaccine distribution continuing.

Review of past week's data**ISM manufacturing survey (Mar 1)**

Sa	Dec	Jan	Feb	
Overall index	60.5	58.7	<u>59.0</u>	60.8
Production	64.7	60.7		63.2
New orders	67.5	61.1		64.8
Inventories	51.0	50.8		49.7
Employment	51.7	52.6		54.4
Supplier deliveries	67.7	68.2		72.0
Export orders	57.5	54.9		57.2
Imports	54.6	56.8		56.1
Prices	77.6	82.1		86.0

Markit manufacturing PMI (Mar 1)

Index, sa	Jan	Flash Feb	Final Feb	
Composite ¹	59.2	58.5	<u>58.6</u>	58.6
New orders (30%)	59.9	57.4		57.4
Output (25%)	60.5	57.7		57.8
Employment (20%)	54.7	55.6		56.3
Sup. del. (15%, inv.)	33.4	26.8		27.1
Stks of purch (10%)	51.3	47.6		47.2
New export orders	54.0	53.8		53.6
Backlogs of work	52.4	54.8		55.0
Output prices	60.4	61.2		60.6
Input prices	65.1	73.3		73.2
Stocks of fin. goods	48.1	49.2		48.2
Quantity of purchases	54.8	53.9		53.7
ISM-weighted comp. ²	58.6	58.3		58.3

1. Weights in parentheses

2. Attributes ISM-composite weights (equal weights) to corresponding PMI series

The ISM manufacturing survey beat expectations in February, with its headline increasing from 58.7 in to 60.8. The headline composite already had been looking strong before this increase, and with the recent move up, the February reading was one of the strongest figures reported in several decades. Similar to the headline, many of the key details of the survey have looked strong lately, and the measures of new orders, production, and employment all picked up between January and February. But we should keep in mind that high readings on supplier delivery times have been boosting the headline compo-

site lately, and these likely reflect supply chain disruptions and other "negatives" rather than delays due entirely to robust demand.

The separate Markit manufacturing PMI's headline composite cooled modestly between January (59.2) and February (58.6), with the final February figure revised up slightly relative to the flash figure previously released for the month. While there was some cooling reported for the composite in February, like the ISM survey, the PMI has looked strong overall in recent months, in part due to the supplier delivery times index.

Construction spending (Mar 1)

%m/m, sa	Nov	Dec	Jan	
Nominal	<u>-1.1</u>	1.4	<u>-1.0</u>	1.1
Private	1.5	<u>-1.2</u>	1.5	<u>-0.9</u>
Residential	<u>-3.0</u>	3.1	<u>-3.4</u>	3.8
Nonresidential	<u>-0.6</u>	-0.7	<u>-1.7</u>	-1.9
Public	<u>-0.4</u>	1.1	<u>-0.5</u>	0.1

Construction spending increased 1.7% in January. This was above expectations, and there were also upward revisions reported to data for earlier months. The trajectory for the data early in 1Q looks a little firmer than we had anticipated, and revisions to the 4Q figures were slightly favorable for our 4Q GDP tracking, but overall the surprises were not large enough to meaningfully impact our headline growth estimates for either 4Q20 or 1Q21.

In the details of the construction report, the trend in private residential construction spending remained strong. This type of construction spending jumped another 2.5% in January, with spending up more than 20% oya. Private nonresidential construction spending had been generally trending lower since late in 2019, but a modest 0.4% increase in January reversed a small portion of the earlier declines. Public construction spending, meanwhile, has picked up lately (helped by a large upward revision to November data), and this type of spending increased 1.7% in January.

Motor vehicle sales (Mar 2)

Millions, saar	Dec	Jan	Feb	
Light trucks and autos	16.2	16.6	<u>15.6</u>	15.7
Imports	3.6	3.8		3.7
Domestics	12.6	12.8		11.9
Autos	2.7	2.7		2.4
Light trucks	9.9	10.1		9.5

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

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Economic Research**United States**

March 5, 2021

J.P.Morgan

ISM services survey (Mar 3)

Sa

	Dec	Jan	Feb	
Headline composite	57.6	58.7	58.5	55.2
Business activity	60.5	59.9		55.5
New orders	58.6	61.8		51.9
Employment	48.7	55.2		52.7
Prices	64.4	64.2		71.8

Markit services PMI (Mar 3)

Index, sa

	Jan	Flash Feb	Final Feb	
Business activity	58.3	58.9	59.0	59.8
Incoming new business	55.8	56.9		57.7
Employment	51.1	50.9		50.4
Business expectations	73.5	74.2		66.3
Input prices	66.9	70.3		70.1
Prices charged	58.3	59.0		58.5
Backlogs of work	50.8	51.9		52.5

The ISM services survey's headline composite fell from 58.7 in January to 55.2 in February, disappointing expectations. This was one of the larger monthly declines in the history of the series, and the February level was middling after a run of solid readings reported for recent months. The details of the latest report were generally unfavorable, with weakening in the measures of business activity, new orders, and employment, and an increase in the supplier deliveries (which could be related to supply chain issues or other disruptions). Despite the relatively downbeat news in this latest ISM survey, we think the service sector will keep recovering over time as the burdens associated with COVID-19 ease. The separate Markit PMI survey on the services sector has reported more favorable changes lately (including an upward revision to the headline activity index in February relative to the flash report).

Productivity and costs (Mar 4)

Nonfarm business sector, %q/q, saar, unless noted

	Rev 3Q20		Pre 4Q20	Rev 4Q20	
Productivity	-5.1	4.2	-4.8	-4.7	-4.2
%oya	-4.2	3.9	2.5	-2.5	2.4
Output	44.1	44.1	5.3	5.5	5.5
%oya	-3.2	-3.2	-2.7	-2.6	-2.6
Hourly compensation	-4.9	-5.8	1.7	-1.1	1.5
%oya	-7.5	7.2	7.8	-6.9	6.7
Unit labor costs	-9.5	-9.6	6.8	-6.1	6.0
%oya	-3.2	3.1	5.2	-4.3	4.2
Hours	37.1	38.3	10.7	10.7	10.1
%oya	-7.1	-6.9	-5.0	-5.0	-4.9

The 4Q change in nonfarm productivity was revised up from -4.8% to -4.2% saar, a larger upward revision than anticipated. The productivity data can be noisy from quarter to quarter, and even though productivity fell in 4Q, it still looks like the trend in productivity growth has firmed since the pandemic began, as some low-productivity sectors have been hurt more than some high-productivity sectors. In the updated data, nonfarm productivity increased 2.4% oya in 4Q, about a half percentage point stronger than the comparable figure reported for 4Q19.

The recent data on unit labor costs were revised lower in the latest report, but it still looks like the broad trend for unit labor costs has picked up since the pandemic began, likely in part due to a relative shift in activity away from some low-wage sectors. In the latest figures, unit labor costs increased 6.0% saar in 4Q and were up 4.2% oya.

Factory goods report (Mar 4)

%m/m, sa, unless noted

	Nov	Dec		Jan	
New orders	1.3	-1.4	1.6	-3.4	2.6
Shipments	0.8	-1.7	2.1	-2.6	1.9
Inventories	0.8	0.3		-0.3	0.1
Inventory/sales ratio	1.41	1.38		1.35	1.36

New orders for factory goods increased 2.6% in January, beating the consensus expectation but disappointing our forecast. Factory goods shipments, meanwhile, jumped 1.9% in January, while related inventories ticked up 0.1%. Overall, the GDP-related details were a little softer than we had anticipated, but the news didn't change our views on 1Q growth much (or imply much revision to 4Q). Most importantly, the January data for the key core capital goods series were revised lower relative to the advance durables report, but the updated figures still showed a strong increase in shipments (1.8%) and a solid gain for orders (0.4%).

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March 5, 2021

J.P.Morgan**Labor market report (Mar 5)**

Sa

	Dec	Jan	Feb
Payroll employment (ch, m/m, 000s)	-227	-306	-49
Private payrolls	-204	-274	-6
Goods-producing	-76	82	-4
Construction	-42	47	-3
Manufacturing	-34	35	-40
Service-providing	-303	-388	-53
Private service-providing	-280	-356	-40
Wholesale trade	-16	15	-14
Retail trade	-135	30	-38
Professional services	-156	159	-97
Temporary help	-64	62	-84
Education/health	-34	-29	-7
Leisure and hospitality	-536	-498	-64
Government	-23	-32	-43
Average weekly hours	34.7	35.0	34.9
Index, hrs worked (%m/m)	-0.5	-0.6	-0.9
Hourly earnings (%m/m)	1.0	-0.2	0.1
(%oya)	-5.4	5.5	-5.4
Unemployment rate (%)	6.7	6.3	6.3
Participation rate (%)	61.5	61.4	61.4

Nonfarm employment increased by 379,000 in February. This was almost double expectations and likely would have been even stronger without the depressing effect of unseasonably bad weather in parts of the country. Revisions to prior months now show a bigger jobs dip in December (-306,000) and a firmer recovery in January (166,000). The industrial composition of employment growth displays the clear imprint of the virus on the economy: restaurant and bar jobs increased by 286,000 last month, recouping some of the 390,000 positions lost in the last two months of 2020. The unemployment rate ticked down to 6.2%, which was a tenth better than expected. The participation rate was unchanged at 61.4% and hasn't moved much since last summer; this figure was around 63.0% before the pandemic. The average workweek suffered a big move down from 34.9 hours to 34.6 hours; this data point often gets hit in periods of bad weather. Average hourly earnings increased by 0.2%. Overall this was a pretty good report, and we expect even better numbers in coming months as the incredibly powerful tailwind of reopening should support some rather large job growth figures.

In the details of the establishment survey, government employment fell by 86,000 last month after increasing by 76,000 in January. Much of this up and down pattern is likely an artifact of seasonal adjustment. Private payrolls increased by 465,000 last month. Leisure and hospitality, which includes restaurants and bars, led the way higher with 355,000 new jobs. Employment in this industry is still 3.5 million below where it was this month last year, which accounts for a good share of the overall 9.5 million jobs shortfall. Construction employment fell by a hefty 61,000 last month, and this sector of the economy usually gets hit hard when the weather is unseasonably poor, as it was in Texas and other parts of the economy. As mentioned above, the move down in the average workweek also likely owed in part to the bad weather. In addition the workweek had been quite firm recently so some of the decline may have been simple payback.

Turning to the household survey, the decline in the unemployment rate caused the employment-to-population ratio to tick up to 57.6%, a welcome increase but still 2.5%-points below its year-ago level. The number of persons who reported themselves not at work due to bad weather was 939,000, well

above the 309,000 average for February (while this is further indication of the depressing effects of the weather, one shouldn't necessarily add 630,000 to the headline to get the "true" number). The number of job losers not on temporary layoff (or permanent job losers) was unchanged at 3.5 million last month and has been stuck around this level for the last six months. While the lack of forward progress on this figure is a little disappointing, the level of permanent job losers is still only about half of what it was in the wake of the Great Recession. The number of persons who didn't look for work due to the virus moved down from 1.8% of the civilian non-institutionalized population in January to 1.6% last month, though still above the pandemic-low of 1.4% in October. The U-6 broad measure of underemployment was unchanged at 11.1% last month; this figure didn't inherit the unemployment rate's move lower due to an offsetting increase in the number of those employed part-time but who wanted full-time jobs.

International trade (Mar 5)

\$billion, samr

	Nov	Dec	Jan
Balance(BOP basis)	-69.0	-66.6	-67.0
Services	-18.0	-17.5	-17.4
Merchandise	-87.0	-86.9	-84.1
Exports (%m/m)	-1.4	1.2	3.4
Imports (%m/m)	-2.9	3.0	-1.5

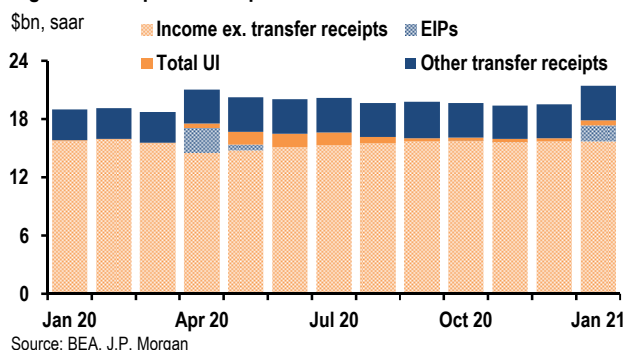
The nominal trade deficit widened from \$67.0bn in December to \$68.2bn in January. The January deficit was a little wider than expectations but overall the report was not much different than our forecast (set after the advance trade data were released for the month). The January deficit was wider than the 4Q average and we think that net exports remain on track to subtract from GDP growth in 1Q.

Sources: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Markit, Philadelphia Fed, Standard & Poor's, University of Michigan, US Treasury

Focus: Stimulus benefits driving swings in income

Personal income surged 10.0% in January with disposable income jumping 11.4%. These large increases were tied to a surge in transfer receipts that primarily was due to economic impact payments (EIPs or “stimulus checks”) paid out as a result of the stimulus bill passed in late December. We review how the composition of personal income has changed since the pandemic began, comparing the income profile from before the pandemic (using data for 2019, Figure 2) with data since the pandemic began (March 2020-January 2021, Figure 3) and the most recent monthly readings (January 2021, Figure 4). Unsurprisingly, transfer payments recently have made up a much larger share of income than the pre-pandemic norms and employee compensation now accounts for a smaller-than-normal income share (Figure 1). Transfer payments likely will continue to be an important driver of income fluctuations, with income expected to fall sharply in February due to the drop-off in EIPs, but probably jumping again later if another stimulus bill is passed that authorizes more stimulus checks (and other types of income support).

Figure 1: Composition of personal income



Before the pandemic began (using 2019 figures as a baseline), employee compensation accounted for 62% of total income while transfer receipts made up about 17%. Within transfers, income tied to Social Security, Medicare, and Medicaid accounted for about 13% of total income, while unemployment insurance benefits amounted to less than 0.2%.

The aggregate level of employee compensation fell sharply early in the pandemic before recovering more recently, but since the pandemic began (March 2020-January 2021), employee compensation has accounted for only 57% of total income. Transfer receipts have moved up in importance, making up a share of around 23%. This increased share of income coming from transfers is due largely to the two rounds of stimulus checks sent out to date, increased usage of the regular state unemployment programs, and expanded unemploy-

ment insurance programs (PEUC, PUA, and FPUC). While Social Security, Medicare, and Medicaid payments remain meaningful income supports, UI payments have accounted for more than 3% of total income since the pandemic began. EIPs, meanwhile, made up about 2%.

Transfer receipts surged in January due to almost \$140bn (or \$1.7tn saar) of EIPs that accounted for about 8% of total income that month. The stimulus checks associated with the December relief package appear to have been mostly paid out by the end of January, and we expect related income to fall substantially in February. If we are right that a [future stimulus bill](#) authorizes additional stimulus checks, EIP income should jump again in the future.

Figure 2: Composition of personal income (2019)

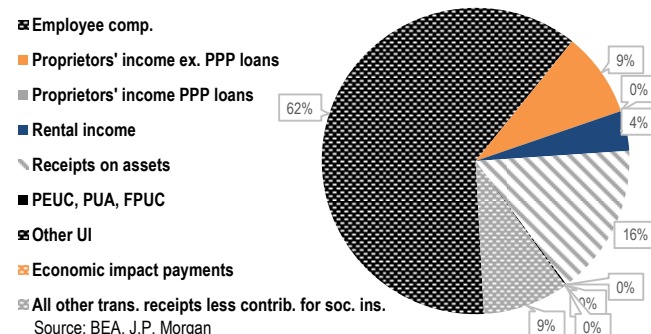


Figure 3: Composition of personal income (Mar. 2020 - Jan. 2021)

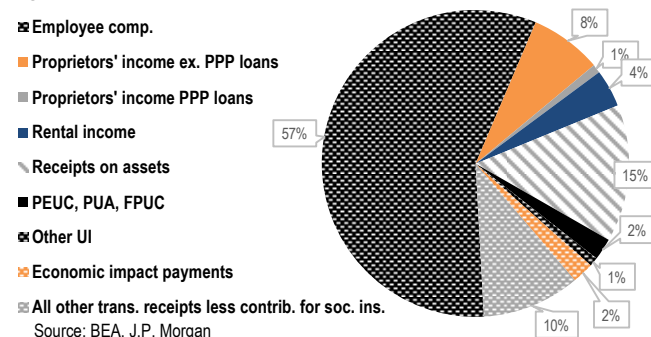
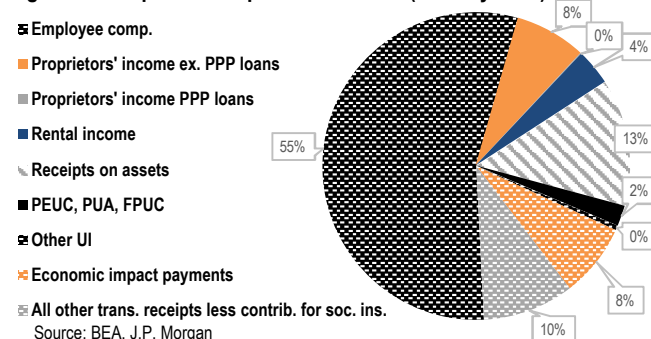


Figure 4: Composition of personal income (January 2021)



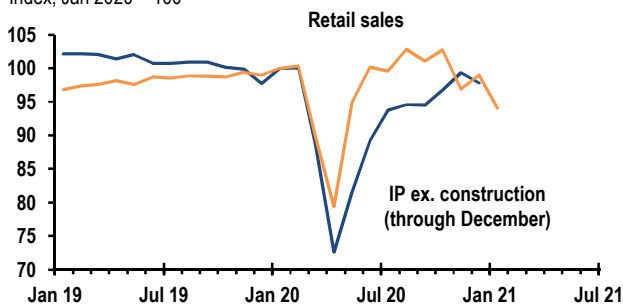
Euro area

- **Retail sales off to a very weak start in 2021, as restrictions and other factors took a toll**
- **German industry data held up well in January while labor markets remain supported by short-term schemes**
- **Inflation distortions started to unwind in February**
- **ECB meeting: Some verbal clarity likely on the implementation of the “favorable” financing conditions policy**

This week, brought the first batch of official activity data for 2021 in the region. Unsurprisingly, Euro area retail sales fell a steep 5.9%/m/m in January (Figure 1). Some of this weakness reflected special factors. In Germany (-4.5%/m/m), tighter restrictions and the VAT reset played a role. Clothing consumption also fell sharply in France, which may be linked to the delayed winter sales period, while the weakness of overall retail sales (-9.9%/m/m) comes after a huge 21% surge as the economy was reopening in December. Plunges in Austria (-16.6%/m/m) and Ireland (-15.7%/m/m) are linked to the ebb and flow of restrictions.

Figure 1: Euro area retail sales and IP

Index, Jan 2020 = 100



Source: Eurostat, J.P. Morgan

Due to these specific factors, we are inclined to downplay the January retail sales report until the report for February gives more clarity about the trend in 1Q21.

German industry data held up well in January

German orders rose 1.4%/m/m in January, while factory sales dropped 1.1%/m/m. The increase in orders was bigger when bulk items are excluded (+2.8%/m/m), leaving the January print 8.6% annualized above the 4Q20 average. This is remarkable given the 32%q/q, or surge in 4Q20, but not entirely surprising given the strength in the German manufacturing PMI. January factory orders were 3.1% above the pre-COVID-19 level and factory sales were 2.7% below it. In the car sector, orders for motor vehicles rose around 2%/m/m overall as a 15%/m/m fall in domestic orders was offset by a

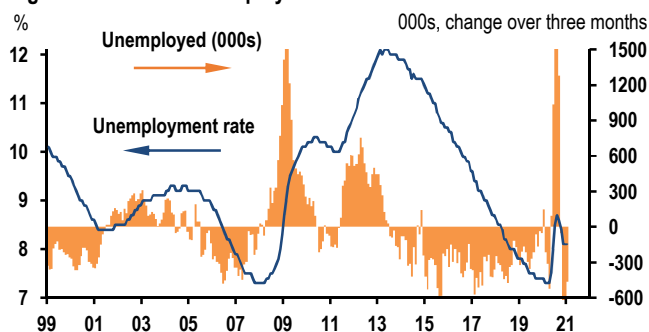
12%/m/m increase in export orders. The weakness in domestic orders likely reflects the increase of the VAT rate back to 19% and also the closure of car dealerships during the lockdown. Separately, the VDA car production data were broadly stable in February and suggest that car production in the IP data may also hold up despite the shortages of semiconductors and reports of supply chain disruptions from border closures and checks. Overall, early industrial data are encouraging going into 1Q21.

Unemployment rate remained stable, as short-term work subsidies remain in place

In the labor market, the number of unemployed was broadly stable in January and the unemployment rate was unchanged at 8.1% (after a 0.2%-pt downward revision in December, Figure 2). There are large divergences at the country level. Among the main economies of the region, the unemployment rate is lowest in Germany (4.6%) and highest in Spain (16%), while France (7.9%) and Italy (9% in December) are intermediate cases.

Part-time work subsidy schemes have to a large extent shielded labor markets from the negative consequences of the virus outbreak. Last year, the Euro area unemployment rate rose only 0.8%-pt while GDP fell 6.8%. Part-time work subsidy schemes are still in place at the start of this year, thus the impact of restrictions (in the hospitality sector and sometimes non-essential retail) will remain limited.

Figure 2: Euro area unemployment



Source: Eurostat, J.P. Morgan

Core inflation: Some distortions started to unwind in February

After a 1.2%-pt jump in January, Euro area core inflation dropped 0.3%-pt to settle at 1.1%o/a in February (-0.1%/m, sa). This move was driven by a 0.5%-pt drop in core goods price inflation to 1.0% and a 0.2%-pt decline in services price inflation to 1.2%. Meanwhile, headline price inflation was stable at 0.9% in February (-0.1%/m) as the fall in core inflation was offset by a 2.5%-pt increase in energy price inflation to -1.7%. Food price inflation was broadly stable (-0.1%-pt to 1.4%).

A numbers of factors drove January's historic rise in core inflation, including the return of the German VAT rate to 19%, delayed winter sales in some countries, and changes in weights in the HICP basket. Very few details are available with the flash February release, but we think that the 0.3%-pt decline in core inflation reflects some unwinding of these forces.

- The delayed sales period raised core inflation by 0.4%-pt in January; we think this distortion is now worth 0.2%-0.3%-pt. This issue was most acute in France and Italy. In our view, the 0.6%-pt decline in French core inflation to 0.5%oya in February is linked to this factor (the details are not yet available). But the rise in Italian core inflation in February (+0.3%-pt to 1.0%oya) suggests that this sales-related distortion has not faded yet.
- Weight changes also increased Euro area core inflation by 0.4%-pt in January, and this distortion could be worth 0.3%-pt in February. We expect this distortion will fade gradually and eventually turn negative this summer, before lifting core inflation again around the end of the year. But guessing the impact of this factor over time is very tricky since it depends on both weight changes and price developments.
- By contrast, the February decline in Euro area core inflation is not linked to the German VAT rate. The return of the German VAT rate to 19% in January means that the 0.4%-pt drag in 2H20 disappeared in January. This factor will then lift Euro area core inflation by 0.4%-pt in 2H21, a base effect from the temporary cut in the VAT rate in 2020.

On a forward-looking basis, the weight distortion is hard to assess but we estimate that this distortion is set to fade in the coming months and turn into a 0.5%-pt drag this summer, before turning positive again later this year. As a result, core inflation could trough at 0.2%oya in July and peak at 1.6% in November. These are huge swings, but these distortions to a large extent cancel out this year and would only drag core inflation by 0.1%-pt to 1.1%oya in 2021. Significant weight changes next year would also trigger significant distortions.

Moving away from these distortions, our forecast assumes a reduced level of slack and rising inflation expectations over the coming quarters, which will lift underlying inflation. We expect core inflation to reach 1.1%oya in 4Q22, the level seen before the COVID-19 outbreak.

ECB to signal low tolerance of a tightening in financing conditions from current levels

In recent months, the ECB has opted to maintain its current policy setting for longer and allow more time for inflation to return to the target, while shifting its near-term focus to preserving "favorable financing conditions." Arguments for this patient approach include questions about monetary policy's ability to boost growth further and the risk of side effects. But, while it may be reasonable to choose patience over intensification, the new focus on financing conditions has created new problems.

The sell-off in markets and the lack of a response by the ECB gives the impression that the Governing Council has adopted this target before agreeing on exactly how "favorable" financing conditions should be. This has exposed the ECB to being tested by markets. So far, the weekly PEPP purchase data have not revealed a clear response to the recent sell-off, even though many ECB policymakers have said that the flexibility of PEPP can be used. One underlying problem is that some ECB policymakers regard the recent market sell-off as driven by "good news" rather than as being "excessive" or "unwarranted." Consistent with this, we expect the ECB staff to raise its inflation forecast by 0.2%-pt in 2022 and 2023.

Against this backdrop, we expect the ECB will use the new staff forecasts to emphasize that the reflation theme is much less relevant for the Euro area at this stage than for the US and that its tolerance for a tightening in financing conditions, broadly defined, from current levels is limited. Combined with the almost €1,000bn of firepower that is left within the PEPP envelope, such verbal intervention can be effective. But, for this, President Lagarde must convey a much stronger sense of unity within the Governing Council about the trigger points. This should be possible in the near term, although the challenge will be to maintain the unity on this if the economic data strengthen over time.

Other than some verbal clarifications, we do not expect new announcements of substance. In particular, we do not expect the ECB to increase the PEPP envelope as there is a lot of firepower left within the current one and enough flexibility to use it. We also do not expect any changes to the forward guidance on rates or APP. Finally, we do not expect the ECB to announce a temporary step-up in PEPP purchases. It is possible that some increase has already happened and that purchases will increase somewhat for a week or two, but we do not expect a clear and quantitative statement on this.

Data releases and forecasts

Week of March 8 - 12

Output and surveys

Real GDP		1Q20	2Q20	3Q20	4Q20
Tue	Euro area (3rd estimate)				
Mar 9	%q/q, sa	-3.7	-11.7	12.4	<u>-0.6</u>
11:00am	%q/q, saar	-14.1	-39.2	59.9	<u>-2.4</u>
	%oya	-3.2	-14.7	-4.3	<u>-5.0</u>
	GDP components (%q/q, saar)				
	Private consumption	-16.7	-41.2	68.5	
	Government consumption	-2.4	-8.6	20.8	
	Fixed investment	-21.1	-50.0	66.8	
	Exports	-14.3	-56.8	85.9	
	Imports	-11.3	-55.2	58.6	
	Contribution to GDP growth (%q/q, saar)				
	Domestic final sales	-14.4	-36.1	53.8	
	Inventories	2.4	-0.9	-5.0	
	Net trade	-2.0	-3.6	9.7	

Activity collapsed 39% ar in 2Q20, after a 14% ar drop in 1Q. This fall is linked to tight virus related-restrictions (which generally did not impose business closures) and the difficulty to provide safe working conditions for workers (which effectively forced companies to cut down production). Last quarter, restrictions were tight in some countries but companies were better prepared with hygiene protocols in place. The 4Q GDP contraction thus looks modest compared to the spring. We expect the 3rd estimate to come in in line with the 2nd estimate.

Industrial production

		Oct	Nov	Dec	Jan
Fri	Euro area				
Mar 12	Ind production (%m/m, sa)	2.5	2.6	-1.6	<u>0.5</u>
11:00am	%oya, sa	-3.4	-0.6	0.1	
	Manuf prod (%m/m, sa)	2.3	3.4	-1.7	

The fall in Euro area IP in December was largely driven by Ireland, where some payback (-25%/m) took place after a huge 51%/m gain in November. COVID-19 restrictions remained broadly unchanged at the start of the year, but these restrictions mainly impact segments of the service sectors (leisure and hospitality). Overall, we expect a broad move in IP across countries.

		Oct	Nov	Dec	Jan
Mon	Germany				
Mar 8	Industry incl constr (%m/m, sa)	3.5	1.5	0.0	<u>0.2</u>
8:00am	%oya, sa	-2.9	-2.4	-0.7	
	Industry ex constr (%m/m, sa)	3.8	1.3	0.6	<u>0.3</u>
	Manufacturing (%m/m, sa)	3.7	1.5	0.9	<u>0.0</u>
	Construction (%m/m, sa)	2.0	2.4	-3.2	<u>0.0</u>
	Energy (%m/m, sa)	5.3	-3.5	-2.5	<u>2.0</u>

We expect German IP to have been broadly stable in January. Factory sales did fall around 1%/m and there have been disruptions to car production. But, the level of IP was lagging behind other indicators (e.g. sales, orders, VDA car production) and therefore it is not clear that IP will ac-

tually decline in January. If correct, the report would get 1Q21 off to a solid start.

		Oct	Nov	Dec	Jan
Wed	France				
Mar 10	Ind production (%m/m, sa)	1.8	-0.7	-0.8	<u>0.5</u>
8:45am	%oya, sa	-4.0	-4.5	-3.0	
	Manuf prod (%m/m, sa)	0.6	0.7	-1.7	

Tight restrictions had a modest impact on IP in the late part of 2020. We expect some payback at the start of the year. Some restrictions are still in place but they are mostly constraining some services (hospitality and leisure) and do not impede production in the manufacturing sector.

		Oct	Nov	Dec	Jan
Tue	Italy				
Mar 9	Ind production (%m/m, sa)	1.4	-1.4	-0.2	<u>1.2</u>
10:00am	%oya, sa	-2.2	-4.2	-1.9	
	Manufacturing (%m/m, sa)	1.6	-1.2	-0.2	

Italian IP moved moderately lower at the end of 2020, as corporates managed to look through part of the impact of tighter COVID-19 measures in Nov-Dec. We expect IP to resume rising solidly in January, in line with some early loosening of restrictions.

Demand and labor markets

Employment

		2Q20	3Q20	4Q20	1Q21
Tue	Euro area				
Mar 9	Sa				
11:00am	000s, diff. q/q	-4739	1576	538	
	%q/q	-3.0	1.0	0.3	
	%oya	-3.0	-2.1	-1.9	

External trade and payments

Foreign trade

		Oct	Nov	Dec	Jan
Tue	Germany				
Mar 9	€ bn, values, sa				
8:00am	Trade balance	18.2	15.9	16.5	
	year earlier	20.3	18.8	19.2	
	Exports	104.9	107.3	107.7	
	%m/m	0.9	2.3	0.4	
	Imports	86.7	91.3	91.2	
	%m/m	-0.1	5.4	-0.1	

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

Inflation

Consumer prices

		Nov	Dec	Jan	Feb
Fri	Germany (final)				
Feb 12	%m/m, nsa	-0.8	0.5	0.8	<u>0.7</u>
8:00am	%oya, nsa	-0.3	-0.3	1.0	<u>1.3</u>
	HICP (%oya)	-0.7	-0.7	1.6	<u>1.6</u>

		Nov	Dec	Jan	Feb
Fri	Spain (final)				
Mar 12	%m/m, nsa	0.2	0.2	0.0	<u>-0.6</u>
9:00am	%oya, nsa	-0.8	-0.5	0.5	<u>0.0</u>
	HICP (%oya, nsa)	-0.8	-0.6	0.4	<u>-0.1</u>

¹ Excluding food, alcohol, tobacco and energy.

		Oct	Nov	Dec	Jan
Wed	Italy				
Mar 10	%m/m, nsa	0.7	-0.2	0.5	
11:00am	%oya, nsa	-2.4	-2.3	-1.8	

Review of past week's data

Output and surveys

Purchasing managers index final (manufacturing)

	Dec	Jan	Feb	
Euro area				
Overall region	55.2	54.8	<u>57.7</u>	57.9
Germany	58.3	57.1	<u>60.6</u>	60.7
France	51.1	51.6	<u>55.0</u>	56.1
Italy	52.8	55.1		56.9
Spain	51.0	49.3		52.9

Purchasing managers index final (services)

	Dec	Jan	Feb	
Euro area				
Overall region	46.4	45.4	<u>44.7</u>	45.7
Germany	47.0	46.7	<u>45.9</u>	45.7
France	49.1	47.3	<u>43.6</u>	45.6
Italy	39.7	44.7		48.8
Spain	48.0	41.7		43.1

Purchasing managers index final (composite)

	Dec	Jan	Feb	
Euro area				
Overall region	49.1	47.8	<u>48.1</u>	48.8
Germany	52.0	50.8	<u>51.3</u>	51.1
France	49.5	47.7	<u>45.2</u>	47.0
Italy	43.0	47.2		51.4
Spain	48.7	43.2		45.1

Manufacturing orders

	Nov	Dec	Jan	
Germany				
Volumes, sa				
Total (%m/m)	2.7	<u>-1.9</u>	-2.2	<u>0.0</u> 1.4
%oya	6.8	<u>6.4</u>	6.0	2.4
Total ex. bulk orders (%m/m)	2.2	<u>-2.0</u>	-2.1	<u>0.0</u> 2.8
%oya	6.8	<u>5.7</u>	5.6	5.9
Domestic (%m/m)	2.4	-0.9		-2.6
%oya	6.2	4.3		1.4
Foreign (%m/m)	2.9	<u>-2.6</u>	-3.1	4.2
%oya	7.2	<u>7.9</u>	7.3	3.1

Real GDP

	2Q20	3Q20	4Q20	
Italy				
%q/q, sa	-13.0	15.9	<u>-2.0</u>	-1.9
%q/q, saar	-42.7	80.3	<u>-7.7</u>	-7.5
%oya	-18.2	-5.2	<u>-6.6</u>	
GDP components (%q/q saar)				
Private consumption	-39.6	64.2		-10.4
Government consumption	-5.3	6.4		6.2
Fixed investment	-52.8	77.9		0.7
Exports	-67.2	89.7		5.1
Imports	-55.0	69.6		23.2
Contribution to GDP growth (%q/q saar)				
Domestic final sales	-35.5	64.4		-5.0
Inventories	-1.3	-6.8		1.6
Net trade	-9.0	18.7		-4.1

Italian GDP fell 7.5%q/q, ar (or -6.6%oya) in 4Q20. Domestic final sales were the driving force worth a 4.9%-pt drag. However, the composition was less balanced than we expected. Whereas household spending fell 10.4% ar, capex was surprisingly resilient (+0.7% ar), notwithstanding a nearly 180% increase in 3Q20. Government consumption also rose strongly (+6.2% ar) for the second running quarter, likely reflecting higher healthcare spending. Net trade also proved a large drag (worth -4.1%-pts), as imports outpaced exports also due to predictably poor service exports. By itself, the tourist-related balance was worth a 3.2%-pt drag. Changes in inventories remained deep in negative territory, but delivered a +1.6%-pt lift due to the even deeper drawdown seen in 3Q20, when production failed to keep pace with a quickly reopening economy.

Demand and labor markets

Unemployment

	Nov	Dec	Jan	
Euro area				
Harmonized measure, sa (Eurostat)				
Unemployment rate (%)	<u>8.3</u> 8.1	<u>8.3</u> 8.1	<u>8.3</u> 8.1	
Unemployment (ch m/m, 000s)	<u>-233.0</u> -413.0	<u>55.0</u> -58.0		8.0

	Dec	Jan	Feb	
Germany				
Registered (ch m/m, 000s, sa)	<u>-40</u> -35	<u>-44</u> -37	<u>0</u> 9	
000s, nsa	2707.2	2900.7		-2904.4
Unempl. rate (% , sa)	<u>6.0</u> 6.1	6.0	<u>6.0</u>	

See Essay for details.

Employment

	Nov	Dec	Jan	
Germany				
Change m/m, 000s, sa	-26	<u>40</u> 11	<u>0</u> 16	

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

Retail sales

	Nov	Dec	Jan		
Euro area					
Total sales, volumes					
%m/m, sa	-5.7	-5.4	2.0	1.8	-2.3 -5.9
%oya, working-day adj.	-2.2	-1.9	0.6	0.9	-6.4

	Nov	Dec	Jan	
Germany				
Sales ex. autos and petroleum, volumes, sa				
%m/m	1.6	-9.1	-2.0	-4.5
%oya	9.0	0.2		-5.5

See Essay for details.

Inflation

Consumer prices

	Dec	Jan	Feb	
Euro area (flash)				
HICP (%oya, nsa)	-0.3	0.9	0.8	0.9
HICP core (%oya, nsa)	0.2	1.4	1.0	1.1

See Essay for details.

	Dec	Jan	Feb	
Germany (prelim)				
%m/m, nsa	0.5	0.8	0.5	0.7
%oya	-0.3	1.0	1.2	1.3
HICP (%oya)	-0.7	1.6	1.8	1.6
Baden Wuerttemberg (%oya)	0.1	1.1	1.3	1.4
Bavaria (%oya)	-0.3	1.4	1.3	
Brandenburg (%oya)	-0.1	1.3	1.4	
Hesse (%oya)	-0.5	0.9	0.8	1.0
North-Rhine West (%oya)	-0.4	1.0	1.1	1.4
Saxony (%oya)	0.0	1.0	1.1	1.3

	Dec	Jan	Feb	
Italy (prelim)				
%m/m, nsa	0.2	0.7	0.3	0.1
%oya, nsa	-0.2	0.4	0.8	0.6
HICP (%oya, nsa)	-0.3	0.7	0.6	1.0

See Essay for details.

Producer prices

	Nov	Dec	Jan	
Euro area				
%m/m, nsa	0.4	0.3	0.8	0.9 1.4
%oya, nsa	1.9	-2.0	-1.1	0.0

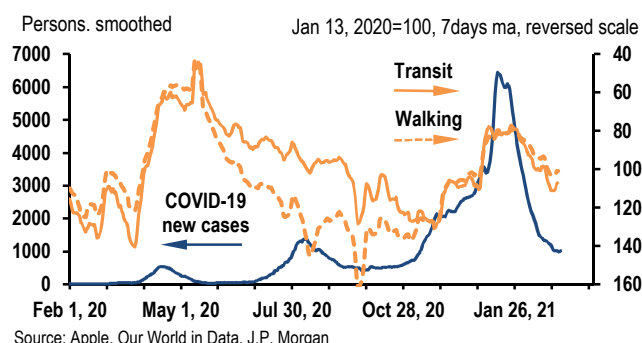
Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE,

Japan

- The government extended the state of emergency in the Metropolitan Tokyo area for another two weeks
- But we expect the economy to continue to recover with consumers gaining confidence
- The BoJ consumption activity index plunged in January, with a sharp contraction in services
- Next week, we expect 4Q20 GDP to be revised down, based on weak capex in the MoF survey

This week, the government extended the state of emergency for the Tokyo Metropolitan area for another two weeks after the scheduled March 7 deadline. Although the number of infections has declined substantially from the peak during the New Year holiday season, it has been flattening out above the levels in September-October (Figure 1), posing risks of a renewed increase once mobility begins to rise. Thus, the government called for people to remain cautious with the extension through March 21, a few days before the Olympic Torch Relay starts. Meanwhile, newly-appointed Tokyo Olympic chief Noda announced a plan to decide whether to allow overseas tourist visits for the Games before the Relay starts. We expect the Tokyo Olympic Games to be held without overseas tourists, leading to a limited economic impact.

Figure 1: COVID-19 new cases and mobility



Next week, we expect 4Q GDP growth to be revised down 0.8%-pt to 11.9%ar from 12.7% in the second estimate with a 5.5%-pt downward revision in capex growth. Nominal capex (excluding software, of nonfinancial corporates) based on the MoF corporate survey out this week marked a third consecutive quarterly decline, falling 5.7%/q, saar in 4Q20 (Figure 2). Both manufacturers' and nonmanufacturers' capex continued to decline, but manufacturing capex fell more, plunging 13.8%, while the nonmanufacturing capex posted a modest 1.2% decline. This result compared with a 19.4%/q, saar surge in the first estimate of 4Q GDP-based capex based on supply-side data, which we expected to be revised down to

13.9% in the second estimate. That said, the survey pointed to a strong base for corporate spending after the pandemic, with corporate deposits reaching a new high, reflecting the government's generous policy support (Figure 3). This week's upward revision of the February Markit PMI indicate a large improvement in business sentiment in both the manufacturing and service sectors, with a large rise in the future activity index. Thus, we expect capex to recover throughout this year. We also expect limited economic drag from the two-week extension of the state of emergency, as people appear to be regaining confidence in response to the decline in the number of infections. With the February jump in consumer sentiment, we expect consumption to gradually recover.

Figure 2: Nominal capex

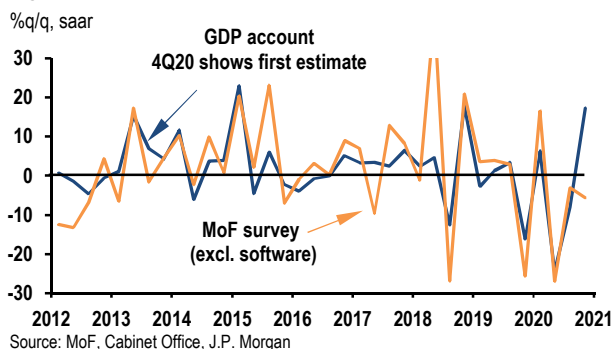
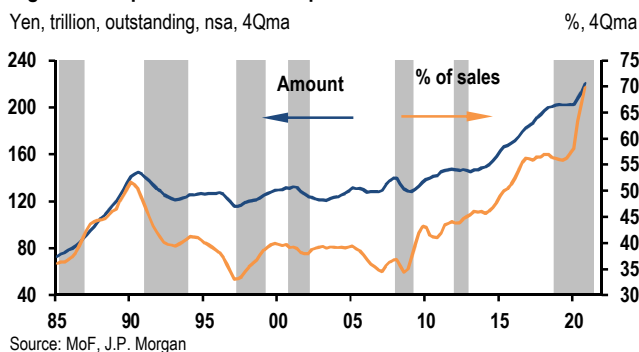


Figure 3: Corporate cash and deposits

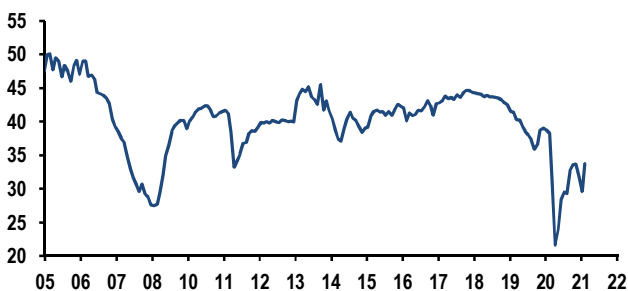


Consumer sentiment jumped

Consumer sentiment jumped 4.2pts to 33.8 in February, beating our expectation of a 2.4pt increase and the consensus forecast of a 0.4pt rise. Although the February reading remained well below the pre-pandemic level a year ago, it is the highest since then, exceeding the November print (Figure 4). All subcomponents posted gains, but the labor market conditions DI, which has been lagging other DIs, rose the most, with a 6.4pt jump. Indeed, the labor market appears to have been less affected by the second state of emergency than the first one, with the unemployment rate declining in January. We expect consumption to gradually pick up along with the improvement in consumer sentiment.

Figure 4: Consumer sentiment

DI, sa

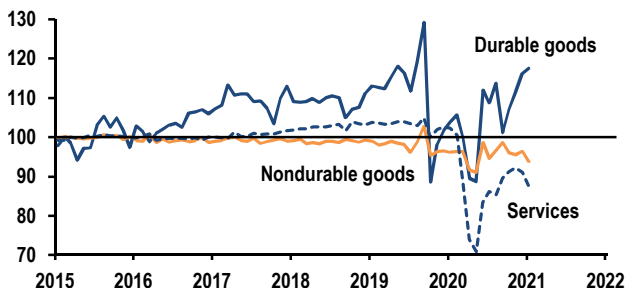


Source: CAO, J.P. Morgan

BoJ consumption index plunged in Jan

The renewed state of emergency slashed gains in consumption achieved from the summer. The BoJ Consumption Activity Index (CAI, travel balance adjusted) fell 2.7%*m/m*, *sa* in January leaving the index close to the August level. The largest drag came from services consumption, which plunged 4.0%, with all restaurants and bars being required to close before 8 p.m. in prefectures under the renewed state of emergency (Figure 5). Meanwhile, durable goods consumption remained robust, rising 1.3%, following two consecutive 4.1% monthly jumps in November and December. We expected a larger drop in consumption in January, as mobility has fallen sharply since the government renewed the state of emergency on January 8.

Figure 5: BoJ Consumption activity index

2015=100, *sa*

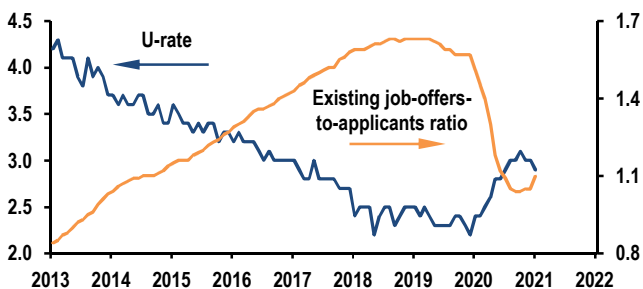
Source: BoJ, J.P. Morgan

The January CAI figures signal that the Cabinet Office Index (COI), the best monthly indicator of GDP-based consumption, dropped 1.0%*m/m*, *sa* in January, following a 2.4% dive in December. We expect consumption to recover from February, as mobility began to pick up in late January alongside a decline in infections. We look for GDP-based consumption to fall 4.0%*q/q*, *saar* in 1Q21, due to weak services consumption under the renewed state of emergency, followed by a robust 7.0% bounce in 2Q21.

U-rate edged down

In January, the indicators of labor market conditions firmed for the first time in two months. The unemployment rate edged down 0.1%-pt to 2.9% *sa* in January, while the job-offers-to-applicants ratio rose by 0.05pt to 1.10 (Figure 6). Although we had expected the labor market indicators to mark some deterioration in January in response to the increase in infection cases from late November and the government's renewed state of emergency from January, labor market conditions were firmer at the turn of the year, reflecting the stronger-than-expected recovery in domestic demand in 4Q20. The government's employment subsidy, covering the bulk of wage payments for workers taking leave, also continued to support this improvement. The number of unemployed fell 3.3%*m/m*, *sa* in January after a 2.4% increase in December, while total employment rose 0.2%. However, the sectoral gap widened in January. Although the number of the employed in education & learning support, medical & health care, and construction rose firmly, pushing up total employment, employment in retail, and personals services, such as accommodations and restaurants, continued to plunge under the renewed state of emergency. We continue to expect labor market conditions will ease again with a lag reflecting the 1Q moderation in economic recovery, before resuming their gradual improvement in 2H21.

Figure 6: Unemployment rate and job-offers-to-applicants ratio

% of labor force, *sa*Ratio, *sa*

Source: Statistics Bureau, MHLW

Data releases and forecasts

Week of March 8 –12

Mon Balance of payments

Mar 8

8:50am

	Oct	Nov	Dec	Jan
Current account (¥bn sa)	1983	2339	2278	<u>2100</u>
Trade balance	754	997	868	
Exports	5967	6227	6101	
Imports	5214	5229	5233	
Services	-216	-277	-277	
Primary income	1685	1899	1869	
Secondary income	-240	-280	-181	
Current account (¥bn nsa)	2145	1878	1166	<u>831</u>

We expect the current account surplus narrowed in January. Using the customs trade data, the BoP-based trade balance surplus should narrow in January. We think both nominal exports and imports rose, but the increase in imports should be larger reflecting the recent rise in oil prices. We expect the primary income surplus to be around the 3-month-average level in January.

Mon Economy Watchers survey

Mar 8

2:00pm

DI, sa	Nov	Dec	Jan	Feb
Current conditions	43.8	34.3	31.2	<u>34.0</u>
Households	43.2	32.1	28.0	
Business	46.0	39.9	39.0	
Employment	42.6	37.4	34.9	

We expect small firms' business sentiment to rise 2.8pts to 34.0 in February. Although the state of emergency remained in place in February, mobility has started to pick up in recent weeks, in response to the trend decline in infection cases. We think this gradual normalization of economic activity raised small firms' business sentiment in February.

Tue Employers' survey – preliminary

Mar 9

8:30am

%oya	Oct	Nov	Dec	Jan
Official base				
Monthly wages per employee	-0.7	-1.8	-3.0	<u>-2.2</u>
Scheduled payments	0.5	-0.2	-0.1	
Full-timers monthly	-0.1	-0.2	-0.2	
Part-timers hourly	2.2	2.3	2.1	
Overtime payments	-12.0	-10.8	-8.6	
Special payments	-9.0	-12.8	-5.1	
Real wages (total)	-0.1	-0.7	-1.9	
Total hours worked	0.3	-2.7	-2.5	

We project total earnings per employee to fall 2.2%oya in January after a 3.0% decline in December. In December, special payments had declined sharply due to weak winter bonus payments. We look for its negative contribution to moderate in January, but the pace of decline in overtime

payments to accelerate due to subdued service activity reflecting the renewed state of emergency.

Tue GDP - 2nd estimates

Mar 9

8:50am

%q/q, saar	2Q20	3Q20	4Q20	
Real GDP	-29.3	22.7	42.7	<u>11.9</u>
Private consumption	-29.5	22.0	8.9	
Residential investment	2.0	-21.0	0.2	
Bus. capital investment	-21.5	-9.2	49.4	<u>13.9</u>
Government consumption	0.9	11.7	8.1	
Public investment	9.2	3.6	5.5	
Exports	-52.9	33.2	52.3	
Imports	5.1	-29.0	17.3	
%-pt contrib. to q/q saar GDP growth				
Domestic final sales	-19.6	11.7	9.8	
Net exports	-12.6	11.8	4.6	
Inventories	1.3	-1.4	-1.9	
GDP deflator (%oya)	1.4	1.2	0.2	

We expect the second estimate of 4Q20 real GDP to be revised down to 11.9%q/q, saar from 12.7% reported in the first estimate. We expect capex to be revised down to 13.9% from 19.4% in the first estimate, reflecting the MoF corporate survey, the key demand-side data, which marked a 5.7%q/q, saar contraction in capex excluding software.

Thu Producer prices index

Mar 11

8:50am

%oya, nsa, 2015-based	Nov	Dec	Jan	Feb
Domestic PPI	-2.3	-2.0	-1.6	<u>-0.6</u>
Export prices	-2.1	-1.4	-1.0	
Import prices	-10.6	-9.7	-8.2	

We expect the producer price index (PPI) will rise 1.0%-pt to -0.6%oya in February. We expect it continued to decline, but its pace eased reflecting the rises in oil prices and USD/JPY.

Review of past week's data

Labor force survey (Mar 2)

%m/m, sa

	Nov	Dec	Jan	
Unemployment rate (%)	<u>2.9</u>	3.0	<u>2.9</u>	3.0
Job offers ratio (% sa)	<u>4.06</u>	1.05	<u>4.06</u>	1.05
See the main essay.				

MoF corporate survey (Mar 2)

%q/q, saar, nonfinancial firms

	2Q20	3Q20	4Q20	
Sales	<u>-33.7</u>	-35.4	<u>45.9</u>	17.6
Current profits	<u>-76.2</u>	-71.6	<u>249.7</u>	205.9
Capex ex. software	<u>-26.7</u>	-26.9	<u>-6.4</u>	-3.1
Capex (%oya)	-11.3	-10.6	<u>-2.0</u>	-4.8

See the main essay.

Consumer sentiment (Mar 4)

DI, sa

	Dec	Jan	Feb	
Consumer sentiment	31.8	29.6	32.0	33.8
Standard of living	34.9	32.2	—	36.3
Income growth	35.0	33.5	—	35.4
Labor market conditions	23.6	21.1	—	27.5
Durables purchases	33.8	31.6	—	36.1
% of respondents, "Rise" minus "fall"				
Inflation expectations in next 12 months				
Nsa	53.5	53.6	—	60.4
Sa	56.1	54.7	—	60.2

1. The DI asks whether a respondent thinks that now is a good time to purchase durables

See the main essay.

Consumption activity index (Mar 5)

%m/m, sa

	Nov		Dec		Jan	
CAI (BoJ)	0.8	0.7	-0.6	0.3	—	-2.7

See the main essay.

Source: BoJ, CAO, EJCS, JADA, JCSA, JDSA, JFA, JLM, VMA, Markit, METI, MHLW, MILT, MoF, Reuters, Statistics Bureau, J.P. Morgan forecast

Canada

- **Real GDP grew 9.6% ar in 4Q20**
- **2020 marked the deepest contraction since the Great Depression on a year-over-year basis**
- **J.P. Morgan Ivey PMI climbed in February**
- **We raised 1Q21 growth from -2% to 2% ar, and softened the post-lockdown bounce in 2Q21 to 6%**

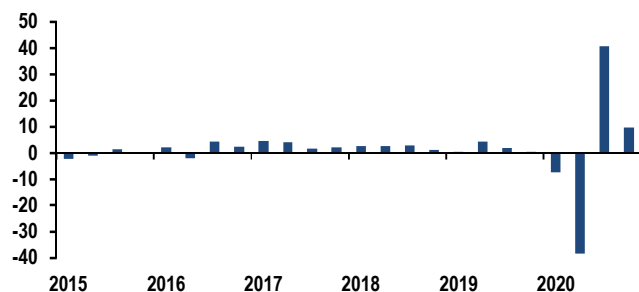
Stronger-than-expected real GDP growth in 4Q20 indicates the Canadian economy is proving more resilient to the negative effects of the COVID-19 second wave and renewed lockdown restrictions. Business sentiment looks solid in the current quarter. In February, the Markit Manufacturing PMI remained constructive while the J.P. Morgan Ivey PMI reversed most of its decline of recent months. The value of building permits jumped 8.2% to a record level in January. Since the current quarter is tracking strong growth right at the start, we raised our 1Q21 real GDP growth forecast from -2% ar to 2.0% ar. The better outlook for 1Q21 suggests a softer post-lockdown bounce so we lowered 2Q growth from 9.5% to 6.0%. Overall, the changes lift our 2021 Q4/Q4 growth forecast 2 ticks to 5.4%.

The worst is over?

This week's real GDP release confirmed that the COVID-19 pandemic caused the largest 4Q/4Q fall in Canadian GDP since the 1981/82 recession. Nevertheless, real GDP growth came in stronger than expected in 4Q at 9.6% saar (Figure 1). In terms of the trajectory at the end of the quarter, monthly real GDP grew a weaker-than-expected 0.1%/m in December. With the largest provinces on lockdown in January, we expected a weaker start to the current quarter; the 0.5%/m flash growth rate for January was thus surprising. Moreover, October and November growth rates were revised up notably.

Figure 1: Real GDP

%q/q, saar



Signals of business activity remained favorable through February. The Markit Manufacturing PMI rose from 54.4 to 54.8. And the J.P. Morgan Ivey PMI jumped to 58.3 from 53 in January (Figure 2). The value of building permits increased by 8.2% to a record C\$9.9 billion in January (Figure 3).

Figure 2: PMI indexes

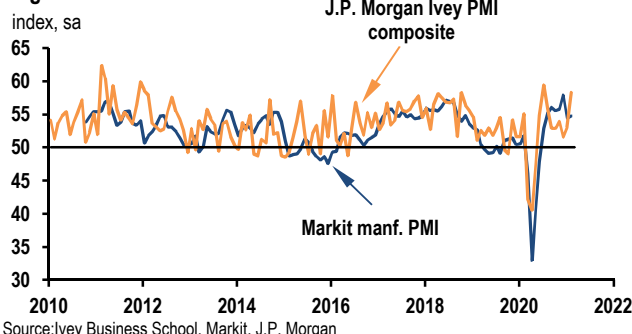
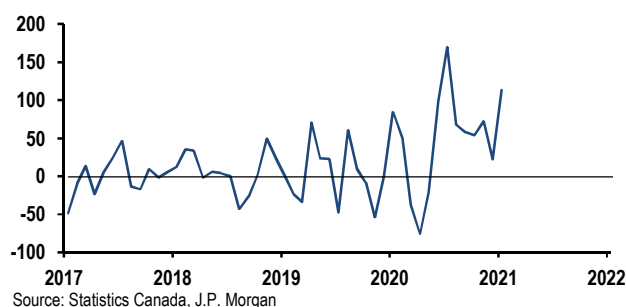


Figure 3: Residential building permits

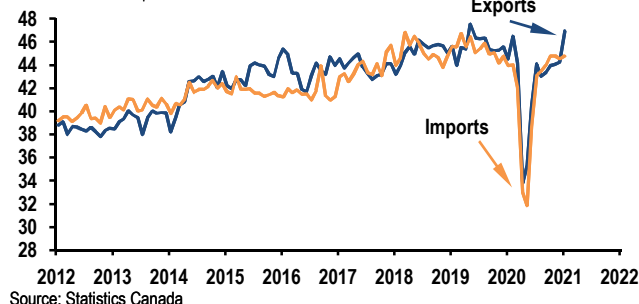
3 month run rate, saar



The January real trade balance expanded to the widest surplus since last May. Real exports grew 6.1% led by a 71% surge in exports of aircraft and other transport equipment whereas real imports rose 0.5% in January on generally positive but modest growth in the major categories (Figure 4). The idiosyncratic nature of the jump in aircraft exports suggests a large reversal in February.

Figure 4: Real merchandise exports and imports

chained 2012 C\$bn



Data releases and forecasts

Week of March 8-12

Fri	Labor force survey				
Mar 12	Sa				
8:30am		Nov	Dec	Jan	Feb
	Employment (mn)	18.54	18.48	18.27	<u>18.47</u>
	(ch, m/m, 000s)	54.6	-52.7	-212.8	<u>200.0</u>
	(%m/m)	0.3	-0.3	-1.2	<u>1.1</u>
	(%oya)	-2.5	-3.1	-4.4	<u>-3.4</u>
	Labor force (mn)	20.28	20.26	20.17	<u>20.21</u>
	(%m/m)	-0.2	-0.1	-0.4	<u>0.2</u>
	(%oya)	0.3	0.2	-0.4	<u>-0.3</u>
	Unemployment rate (%)	8.6	8.8	9.4	<u>8.6</u>
	Avg hrly earnings (%oya)	4.8	5.4	5.9	<u>4.8</u>
	Hours worked (%m/m)	1.4	-0.4	0.9	<u>-0.5</u>

Fri	Wholesale sales				
Mar 12	sa				
8:30am		Oct	Nov	Dec	Jan
	Total, %m/m	1.2	0.7	-1.3	<u>5.3</u>
	%oya	5.4	7.6	4.8	<u>9.4</u>

Ivey PMI (Mar 5)

	Jan	Feb	Mar	
Composite index ¹ (sa)	51.6	53.0	<u>60.5</u>	58.3
Purchasing index (sa)	46.7	48.4	<u>64.0</u>	60.0

1. Calculated and seasonally adjusted by J.P. Morgan

Source: Statistics Canada, Ivey Business School, CMHC, Markit, Teranet/National Bank of Canada, CREA, CFIB, Bank of Canada, J.P. Morgan forecasts

Review of past week's data

Current account (Mar 1)

C\$ bn, saqr, unless noted

	2Q20	3Q20	4Q20	
Current account	-7.0	-8.6	-7.5	-10.5
(% of GDP)	-1.4	-1.7	-1.3	-1.9
Merchandise	-8.2	-8.7	-8.8	-9.8
Nonmerchandise	-1.2	0.1	-1.3	-0.7

Quarterly GDP (Mar 2)

Sa

	2Q20	3Q20	4Q20	
Real GDP, %q/q, ar	-38.4	-38.5	-40.5	40.6
%oya	-12.5	-12.7	-5.2	-5.3

Monthly GDP (Mar 2)

sa

	Oct	Nov	Dec	
Total, %m/m	0.4	-0.7	0.8	-0.3
%oya	-3.4	-2.8	-2.8	-3.0

Building permits (Mar 3)

%m/m, sa, unless as noted

	Jan	Feb	Mar	
Total	-12.5	13.8	-4.4	-4.4
%oya	22.9	-3.2	3.0	-4.4

International trade (Mar 5)

Sa

	Nov	Dec	Jan	
Balance (C\$ bn)	-3.56	-3.52	-1.67	-1.98
Exports (%m/m)	-0.0	0.1	1.5	-2.9
Imports (%m/m)	-0.8	-0.6	-2.3	-1.7
Real balance	-0.74	-0.72	-0.04	-0.28

Mexico

- A new electricity bill may undermine investor sentiment
- Quarterly Inflation Report a non-event; financial stability concerns could push Banxico to pause
- Energy and goods prices keep inflation under pressure
- Also next week: Modest IP gain on strong construction

This week was quite busy in terms of energy policy news and the potential implications of changing the rules of the game in the electricity market. While Monday's meeting between President Biden and President Lopez (AMLO) turned out to be a non-event on this specific topic, it marked the start of what is expected to be a more intense bilateral relationship given the AMLO administration's active agenda of reversing structural reforms that could affect the private sector in the context of the USMCA. To this point, the fast-tracking of the Electricity Bill in the Senate after a quick approval in the Lower House last month is raising a number of questions because of the implicit message from the government to the private sector: competitiveness is not the priority; state monopolies have the upper hand; transparency and accountability don't matter. Furthermore, by crowding out the private sector, there is a material risk of a decline in efficient energy generation similar to what happened to oil production before the price shock of 2014.

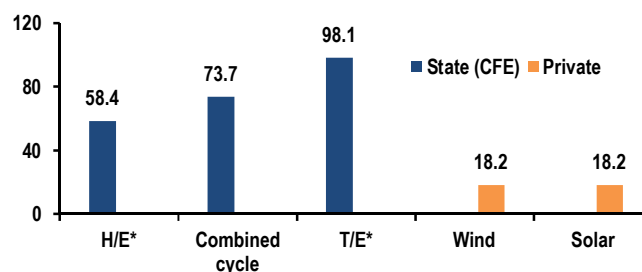
Even in this week's Quarterly Inflation Report, Governor Diaz de León was constantly pushed to clarify the Bank's position on the matter given the potential financial stability and inflation implications. The lack of details about the new electricity price-fixing mechanism or whether the government will use heavy subsidies to mask higher costs are issues that will have important macro implications as soon as this year, particularly on inflation and public finances.

The proposal aims to strengthen the National Electricity Company (CFE) upstream, midstream, and downstream, but the most concerning change in our view is related to distribution, as CFE will now be placed at the front of the line, regardless of cost (Figure 1) or the environmental impact of the increase in generation of non-renewable energies. Also, CFE won't be hard-pressed anymore to buy energy through auctions, diminishing the transparency in government procurement.

Even if CFE reaches settlements with private companies, the cost will not be constrained to the short-term blow to public finances, as it will contaminate investment sentiment and will curtail long-term plans beyond the utilities sector, particularly in manufacturing.

Figure 1: Electricity costs

USD per Mwh



Source: Energy Regulatory Commission (CRE). *H/E is Hydroelectric; T/E is thermoelectric.

With respect to the USMCA, AMLO's actions in the energy sector are expected to have negative implications on several fronts, but only once the Executive Branch signs the bill, and probably only after all the judiciary appeals have been exhausted. A number of legal actions to protect the affected parties are expected to be issued to avoid retroactive damage to investors but still, a cascade of lawsuits cannot be ruled out and new projects will derail with foreign companies favoring other countries with clearer rules and solid institutional frameworks. International courts would have to decide on any potential violations in Investor-State panels and if a foreign company steps up a complaint, another country could escalate the legal action to a State-State controversy (USMCA's Chapter 31), which would raise the (political and financial) cost of the eventual settlements.

Currently, the Mexican government is not facing immediate fiscal pressures given the lack of fiscal stimulus during the pandemic, but with little cash in the stability funds and potential growth expected to continue falling on poor investment prospects, medium-term fiscal concerns are expected to emerge if a thorough fiscal reform is not prepared at the end of this year.

We do not think this Bill by itself has implications for the forthcoming monetary policy decisions in Mexico, but upward revisions to growth and inflation in this week's QIR (Table 1) in addition to jitters in global financial markets could push Banxico to pause again this month. Still, with significant economic slack, and inflation expected to end this year at 3.6% (and core at 3.1%) we believe further easing is still warranted.

Table 1: Banxico QIR forecasts for 2021

%oya	GDP	Inflation
Previous QIR (Nov-20)	3.3	3.3
Latest QIR (Mar-21)	4.8	3.6
JP Morgan	5.6	3.6

Source: Banxico and J.P. Morgan forecasts

Inflation pressures linger, for now

We project that consumer prices jumped 0.62%/m in February, driving up annual inflation by two-tenths to 3.75%oya. To be sure, marginal data for the second half of the month should actually show inflation easing from 3.8% to 3.6%, but this largely reflects benign base effects from the massive jump in food prices in the same period of last year.

Away from base effects, which are due to cause significant volatility in the next couple of months, there remain some sources of upside pressure on consumer prices, even if they should be transitory. The most notable is energy prices, which have gone from deflation late last year, to above-7%oya gains in the second half of February, on our estimates (Figure 2). Adding to pressure on gasoline and liquefied gas prices following the surge of energy prices globally, Mexico faced natural gas shortages late last month that should further push up inflation. The government—which is committed to keeping real gasoline prices unchanged—is already increasing subsidies, and we'd expect it to continue to do so to arrest the increase in domestic prices. But, for the moment, pressure remains in place.

Figure 2: Headline inflation

%oya, biweekly



Source: INEGI and J.P. Morgan forecast for 2H Feb 2021

On the core side, the divide between low services inflation and high goods inflation should remain firmly in place and keep overall core inflation stable at 3.8%oya. We expect additional pressure on nonfood goods prices reflecting supply disruptions and demand shifting into goods. We forecast that these supply/demand shifts eventually will be eclipsed by low household income, resulting in weak demand and weak pricing power. However, as of now, the data are challenging that view. Still, we maintain our forecast for core inflation to recede toward 3%oya in the latter half of the year.

IP gain likely despite weak manufacturing

We have been looking for GDP to drop in 1Q21 on renewed, even if transitory, lockdowns across several states and recent gas supply shortages. However, this week's IMEF PMIs signal that output remained resilient across the manufacturing

and services sectors through February, the month of the most severe lockdowns. At face value, this poses upside risk to our 1Q GDP forecast. Furthermore, if our forecast is right, industrial production eked out a 0.2%/m gain in January, despite our expectation for factory output to have edged down 0.3%/m. Construction, which has lagged the recovery in factory output, is seemingly accelerating, as per survey data, and we expect output to have jumped 1.2%/m early in the year. Coupled with a solid gain in mining output, this should be enough to offset manufacturing weakness and deliver modest IP growth in January. We will reassess our 1Q GDP outlook after next week's IP release.

Data releases and forecasts

Week of March 8 – 12

Consumer prices		Jan 1H	Jan 2H	Feb 1H	Feb 2H
Tue Mar 9 7:00am	%2w/2w	0.51	0.50	0.23	<u>0.28</u>
	Core	0.24	0.17	0.22	<u>0.10</u>
	%oya	3.33	3.74	3.84	<u>3.65</u>
	Core	3.83	3.84	3.84	<u>3.81</u>
		Nov	Dec	Jan	Feb
	All items (%m/m)	0.07	0.38	0.86	<u>0.62</u>
	%oya	3.33	3.15	3.54	<u>3.75</u>
	Core (%m/m)	-0.08	0.55	0.36	<u>0.36</u>
	%oya	3.66	3.80	3.84	<u>3.83</u>

Industrial production		Oct	Nov	Dec	Jan
Fri Mar 12 7:00am	%oya, unless noted				
	%oya nsa	-3.4	-3.8	-2.1	<u>-4.8</u>
	Manufacturing	-1.3	-2.1	2.5	<u>-2.2</u>
	%m/m sa	1.7	1.0	0.1	<u>0.2</u>
	Manufacturing	1.6	0.4	1.1	<u>-0.3</u>

Review of past week's data

IMEF PMI survey

Index, sa	Dec	Jan	Feb	
Manufacturing	48.7	49.4	<u>48.9</u>	49.1
Non-manufacturing	48.3	48.3	<u>46.6</u>	49.4

Remittances

	Nov	Dec	Jan	
Total (US\$ bn)	3.4	3.7	<u>3.0</u>	3.3
%oya	15.6	17.4	<u>13.7</u>	25.8

Gross fixed investment

%oya	Oct	Nov	Dec	
Total	-14.6	-12.1	<u>-11.0</u>	-12.9
M&Eq	-16.9	-14.8	<u>-7.8</u>	-11.5
Construction	-12.6	-9.9	<u>-13.4</u>	-14.2

Source: INEGI, IMEF, Banxico and J.P. Morgan forecasts.

Brazil

- **Policy credibility on thin ice in Brazil**
- **Rumors of measures to circumvent the spending cap prompted another sell-off**
- **But markets rallied back as the Senate approved a bill limiting expenditures on emergency aid and keeping the spending cap unchanged**
- **GDP beat expectations in 4Q20, but with rising COVID-19 cases we raised 2021 GDP growth to only 3.2%**

With the Senate scheduled to vote on the emergency constitutional amendment (PEC), volatility rose in Brazil this week with markets pricing another potential hit to policy credibility. The emergency constitutional amendment aims to give legal support to a new round of cash transfers this year, in exchange for some medium-term adjustments to the fiscal accounts. This week, rumors that the PEC would also include proposals to further circumvent the spending cap (see “Senado articula exclusão do Bolsa Família de gatilhos,” *Valor Econômico*, Mar. 3, 2021) prompted a local market selloff with USD/BRL reaching almost 5.80 at one point on Wednesday.

But the story ended the week on a better note as the government’s economic team was able to avoid including any measures to further circumvent the spending cap beyond the already-expected emergency aid. This relative improvement in the balance of risks immediately led to a market correction, as both the government and Congress chose a more credible fiscal option than that discussed during the day. The Senate then approved the emergency bill in a swift vote on Thursday with more dilution of the proposed fiscal adjustment mechanisms, but limiting the emergency aid expenditure this year to BRL44bn (0.6% of GDP) and keeping the Bolsa Família cash transfer program expenditure within the limits of the spending cap (see “Senado aprova texto-base da PEC do auxílio emergencial,” *O Estado de S. Paulo*, Mar. 4, 2021). The PEC moved to the Lower House, where the speaker said it will be fast-tracked to the floor and voted on next week.

Following the market stress at the end of February, we think that this week’s events were another reminder of how Brazil’s fiscal policy is [on thin ice](#) as the pandemic worsens and the spending cap becomes more binding amid a high level of debt. This policy instability is one reason we only adjusted our 2021 GDP forecast by a tenth this week, after 4Q GDP came in much stronger than expected, which alone would add 70bp of upside to our previous GDP forecast. In addition, recent COVID-19 trends led us to reduce our 1Q and 2Q GDP forecasts and leave the 2H21 recovery unchanged as we wait for future policy developments. As a result, we nudged our

2021 GDP growth forecast to 3.2%/y, from 3.1%, and kept 2022 at 2.4% (Table 1).

Table 1: Annual GDP forecasts

%o/a					
Items	Weight (%)	2019	2020	2021F	2022F
GDP	100	1.4	-4.1	3.2	2.4
Private consumption	64	2.2	-5.5	3.9	3.0
Government consumption	20	-0.4	-4.7	-2.4	-0.8
Investment	15	3.4	-0.8	9.0	2.0
Exports	15	-2.4	-1.8	3.0	5.0
Imports	-14	1.1	-10.0	7.5	4.3

Source: IBGE and J.P. Morgan forecasts

In our view, the risk is that the rising pressures in the country from the increase in policy uncertainty, the worsening of the COVID-19 pandemic, and the jump in input prices may lead to non-linear effects on the Brazilian economy. The bias appears to be toward looser fiscal policy, and this pressure has been contained by the negative market reaction forcing politicians to compromise on a more prudent fiscal solution. But, in the future, we see risks that the government may be put in a more difficult position as we approach the 2022 general election. In this tail-risk scenario, the country could face a protracted period of low growth and elevated inflation.

GDP growth ended 2020 at a solid pace, but the pandemic should weigh on 1H21

Following the vigorous recovery in 3Q20 GDP grew 13.3%q/q, saar last quarter, above our call for a 10% expansion and at the top of the range of the forecasts in the Bloomberg L.L.P. survey. GDP fell 4.1% in 2020, and ended the year 1.2% short of the 4Q19 reading, but already 0.8% above the 1Q20 print. Part of the miss can be explained by inventories, with the exception of exports, the components of demand expanded led by investment, which surged staggering 107.3%q/q saar in 4Q to run at the highest level in more than five years. Private and government consumption were 3% and 4.1% lower than their pre-COVID-19 levels, respectively.

The statistical carry-over from the higher 4Q20 GDP print would raise the 2021 GDP forecast by 70bp. However, the COVID-19 pandemic has worsened recently, particularly since last week. Deaths and cases are rising and vaccination hasn’t picked up yet, and ICU utilization rates are above 90% in many states while [many hospitals across the country have reached capacity](#). This worsening of the pandemic is leading many states to impose tighter restrictions on non-essential businesses.

With a severe second wave of COVID-19 and increasing policy uncertainty, the economy should weaken significantly, which is likely to lower GDP growth in 1Q and, even more, 2Q. Thus we downgraded our 1Q GDP growth estimate from

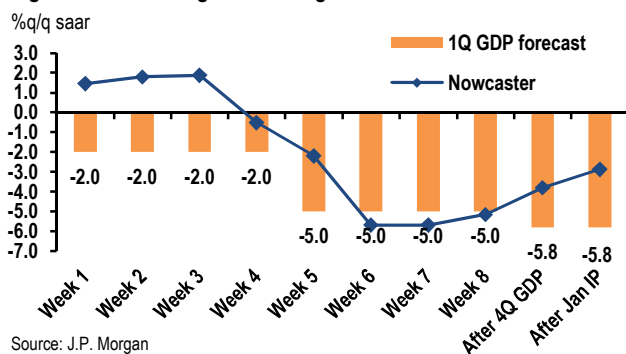
-5% to -5.8% and our 2Q projection from 3.5% to 1.6%. While we watch developments on the political and vaccination fronts, we keep our 2H21 and 2022 forecasts unchanged. So we now forecast 2021 GDP growth at 3.2%/y and keep the 2022 projection at 2.4%.

IP continued growing in January

Industrial production (IP) grew 0.4%/m, sa in January, matching the consensus estimate and beating our call for an unchanged pint. IP is now running 3.7% above the pre-pandemic level, growing 14.3%3m/3m, saar in the three months through January.

After the release of 4Q GDP, our 1Q nowcaster moved from -5.2%q/q, saar to -3.8% and following the January IP, the nowcaster firmed further to -2.9% (Figure 1). While this would suggest upside risk to our 1Q GDP growth forecast, we remain comfortable with our projections as we saw economic activity weakening as the COVID-19 pandemic worsened recently, as we discussed above.

Figure 1: Nowcasting 1Q21 GDP growth



Source: J.P. Morgan

We have revised our forecasts for fiscal and external accounts

With the revisions to GDP growth and our [oil price](#) outlook and with the limit for the emergency aid cash transfers set at BRL44bn, above the BRL40bn we had projected, we revised our forecasts for fiscal and external sector accounts (Tables 2 and 3).

Table 2: Fiscal accounts forecasts

Percentage of GDP, except where indicated

	New		Old	
	2021	2022	2021	2022
Central government primary balance (BRLbn)	-252	-145	-257	-156
Consolidated government primary balance	-2.8	-1.6	-2.9	-1.6
Nominal balance	-6.7	-5.2	-6.7	-5.2
Gross debt	90.2	93.7	90.3	93.8

Source: J.P. Morgan

Table 3: External accounts forecasts

US\$ billion

	New		Old	
	2020	2021	2020	2021
Current account	-1	-8	-4	-10
as % of GDP	-0.1	-0.5	-0.2	-0.7
Trade balance	52	59	53	61
Services and income	-53	-67	-57	-71

Source: J.P. Morgan

Data releases and forecasts

Week of March 8 - 12

Mon		Wholesale prices (IGP-DI)			
Mar 8		Nov	Dec	Jan	Feb
6:00am	%m/m	2.64	0.76	2.91	<u>1.91</u>
	%oya	24.28	23.08	26.55	<u>28.95</u>

Tue		Services sector report			
Mar 9		Oct	Nov	Dec	Jan
7:00am	%m/m, sa	1.8	2.4	-0.2	<u>0.2</u>
	%oya, nsa	-7.4	-5.0	-3.3	<u>-5.5</u>

Thu		Consumer prices (IPCA)			
Mar 11		Nov	Dec	Jan	Feb
7:00am	%m/m	0.89	1.35	0.25	<u>0.69</u>
	%oya	4.31	4.52	4.56	<u>5.02</u>

Fri		Retail sales			
Mar 12		Oct	Nov	Dec	Jan
7:00am	Core %m/m, sa	0.8	-0.1	-6.1	<u>-0.3</u>
	Core %oya, nsa	8.4	3.5	1.1	<u>-0.7</u>
	Broad %m/m, sa	1.8	0.3	-3.7	<u>-1.8</u>
	Broad %oya, nsa	6.1	4.1	2.5	<u>-2.8</u>

Review of past week's data

Gross domestic product

	2Q20	3Q20	4Q20	
%q/q saar	-32.1	34.4	<u>10.0</u>	13.3
%oya	-10.9	-3.9	<u>-2.0</u>	-1.1

Industrial production

	Nov	Dec	Jan	
%m/m, sa	1.1	0.9	<u>0.0</u>	0.4
%oya, nsa	2.6	8.3	<u>1.2</u>	2.0

Source: BCB, FGV, IBGE, and J.P. Morgan forecasts

Argentina

- **President Fernandez indicated that the government won't rush into a deal with the IMF**
- **Higher external surplus does not always mean higher net reserves**
- **February high-frequency CPI data show a slight deceleration, but inflation is still running high**

A highlight of this week was President Fernandez's opening remarks at the ordinary session of Congress. As expected in an election year, the president's speech was loaded with political content and few relevant economic announcements. The president strongly criticized the opposition and the judiciary. First, he reiterated his call for broad judicial reform and enumerated a battery of bills that would be added to the 2020 reform sitting in Congress. Second, he announced he would bring criminal charges against the former administration for the improper use of the 2018 SBA loan granted by the IMF.

Against this backdrop, President Fernandez indicated that the government won't rush into an agreement with the IMF, increasing the risk of a delay of IMF negotiations until after the October legislative election. The president's remarks come at a time when higher-than-expected export inflows due to external tailwinds have served as a bridge to the soy harvest in early April, helping the government to muddle through without the need (so far) to implement policy adjustments. Yet, despite higher inflows, BCRA's net reserves continue on a downward trend, revealing an unstable policy framework. Meanwhile, as we await for the February CPI release next week, high-frequency data show that underlying inflation pressures persist, despite government efforts to strengthen capital controls and anchor nominal variables (the exchange rate, salaries, and utilities tariffs).

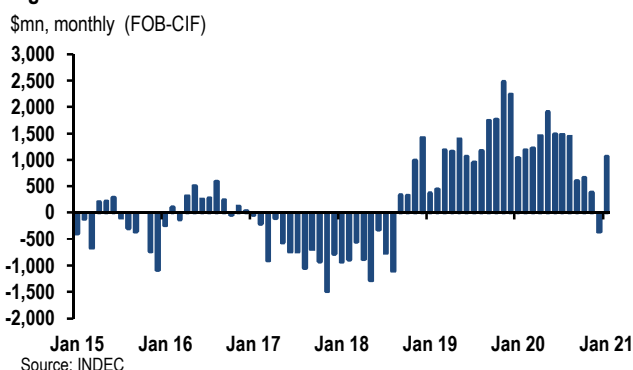
Higher external surplus does not always mean higher net reserves

January's (accrued) trade balance posted a US\$1.1bn surplus, the highest since July 2020, following the US\$364mn deficit reported the prior month. December's shortfall was impacted by an oil-seed workers' strike that paralyzed the main ports (Figure 1).

The return to surplus was driven by a normalization in port activity, which combined with higher commodity prices, explained the 7.3%oya rebound in the value of exports in January. Indeed, export prices increased by 10.7%oya on the month, offsetting a 3.1%oya contraction in volumes.

Imports grew 8.7%oya on a 7.3% increase in volumes. Import volumes growth was broad-based increase despite a still-subdued recovery, but has started to decelerate, likely driven by tighter import restrictions. In our view, tighter import controls have started to limit agents' ability to over-invoice imports, while higher commodities prices and fears of higher export taxes have led exporters to accelerate exports settlement.

Figure 1: Merchandise trade balance



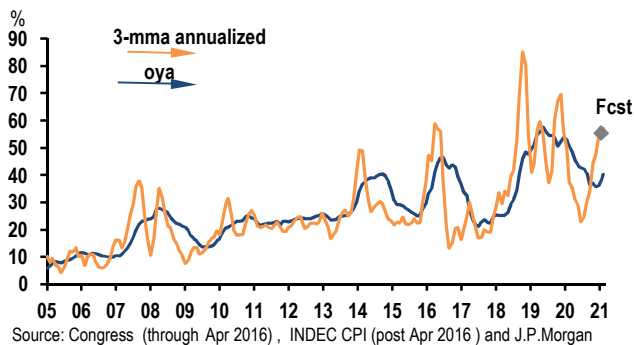
Yet, a higher trade surplus does not always mean higher net reserves. The surplus allowed the central bank to purchase around US\$970mn in the spot market year-to-date (through March 1). Yet, continued intervention in the parallel FX market together with multilateral payments has prevented material growth in BCRA's gross and net reserves. Gross reserves are up by close to US\$230mn YTD while we estimate net reserves are still down by US\$800mn to just US\$3bn.

Despite external tailwinds, we hold to our call for a US\$5.2bn current account surplus in 2021, only slightly above our prior year forecast (US\$4.3bn). A favorable external backdrop characterized by rising commodity prices seems to be underpinning recovery momentum in open economies. More closed economies, like Argentina, offering less growth-oriented policy frameworks will find it more difficult to benefit from prevailing external conditions, absent a comprehensive macroeconomic program that helps to reduce macroeconomic distortions, thereby reducing the FX gap and allowing BCRA to rebuild reserves in a sustainable manner.

February CPI preview: A mild deceleration, but still-high inflation print

The high-frequency data, tracked by Eco-Go, show the headline CPI increasing 3.5% m/m in February, a mild deceleration from the prior month's gain (4.0% m/m) but still well above pre-COVID-19 norms (2.5% m/m average in 1Q20). Inflation is proving persistently high, with 3-month annualized inflation at 57%, a level not observed since November 2019.

Figure 2: Argentina CPI



The high frequency data anticipate that core prices proved sticky, rising 3.7%/m on the month, with the food CPI still accelerating. Food prices increased 4.6%/m, accelerating from the 4.3%/m average over the prior three months.

As we have [anticipated](#), the announced price reduction agreements with the meat sector had little impact on the CPI, with meat prices again increasing strongly (+5.3%/m). Moreover, fresh fruit and vegetable prices also explained the acceleration of the food CPI, jumping 10%/m and 7%, respectively.

We expect underlying inflation pressures to persist, despite government efforts to strengthen price controls. As evidenced by the meat sector, we believe price control agreements will prove of limited value to contain high repressed inflation, which we calculate at around 12%-pts for the year, while on the flip side increasing supply shortage risks, as we started to see in January. Moreover, announced regulated price increases in March are expected to add 1.6%-pts to the headline CPI, setting a floor of 3.5%/m for already-high seasonal inflation this month.

On consumer energy bills, the government has hinted that it aims to limit tariff increases, and de-dollarize energy tariffs, with public services rates linked to the income of the population. While we watch for details on tariff adjustments after March public hearings, we acknowledge risks inflation would be skewed to the downside if the government delays or reduce the hikes in utilities tariffs expected for this year. Granted, this would come at the cost of higher economic subsidies, a higher fiscal deficit, and higher future inflation, therefore exacerbating current macroeconomic imbalances.

Data releases and forecasts

Week of March 8-12

National CPI		Nov	Dec	Jan	Feb
Thu					
Mar 11	%m/m	3.8	4.0	4.0	<u>3.5</u>

Review of past week's data

Government tax revenues

	Dec	Jan	Feb	
ARSbn	1.5	6.0	<u>2.5</u>	8.1

Industrial production

	Nov	Dec	Jan	
%oya	4.3	-3.1	<u>4.8</u>	4.4

Construction

	Nov	Dec	Jan	
%oya	6.2	27.4	<u>28.0</u>	23.3

Source: INDEC and J.P. Morgan forecasts

Chile and Colombia

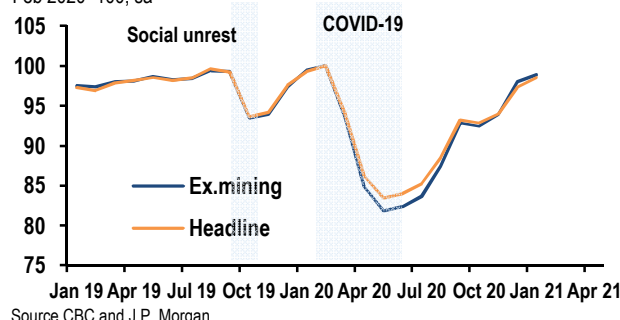
- **Chile: Activity expanded 1.3%*m/m* in January, on mining and services**
- **Employment grew 0.9%*3ma*, *sa*, yet labor market conditions remain grim**
- **Colombia: The CAD narrowed to 3.3% of GDP in 2020 and we expect 3.8% in 2021**
- **Government flows drove reserve accumulation last year, but private inflows should normalize in 2021**

Chile: Activity gained 1.3% in January, on mining and services

Economic activity in Chile expanded 1.3%*m/m*, *sa* in January, on the heels of a 3.6%*m/m* gain in December, to stand 3.1% below its year-ago level. 3-month sequential momentum eased a bit, to 24.2%*3m/3m*, *saar*, compared to 28.3% in December 2020.

Figure 1: Chile economic activity

Feb 2020=100, *sa*



Most relevant to assess the cyclical stance of the economy, ex. mining activity gained 0.9%*m/m*, *sa* (Figure 1). Meanwhile, mining activity finally grew, bouncing back by 7.1%*m/m*, *sa* after five consecutive monthly declines. In all, in January headline activity printed 1.4% below the February 2020 pre-pandemic levels, but ex. mining activity stood 1.1% below, supported by strong fiscal and monetary impulses and the private pension fund withdrawals. On the other side, despite January's bounce, mining activity is still 3.2% below its pre-pandemic level.

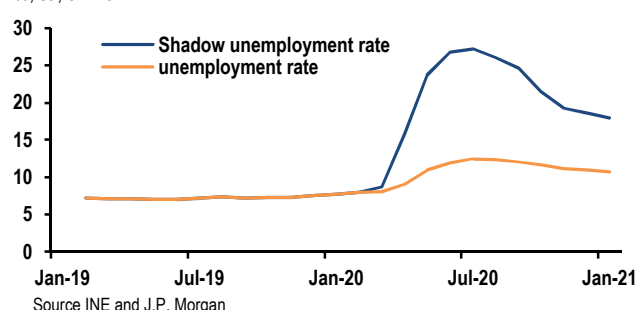
As we highlighted in the last *GDW*, we revised our 2021 GDP growth forecast 50bp higher, to 5.9%*y/y*. We incorporated 22bp of the 70bp in additional growth coming from the recalibrated external impulse, assuming political uncertainty will damp the transmission of external demand to domestic demand. The remaining 28bp reflects the quicker-than-anticipated vaccine rollout.

Employment grew 0.9% *3ma*, *sa*, in January

The seasonally- and calendar-adjusted unemployment rate dropped to 10.7% *sa* (3ma) in January, or 0.2%-pt below the prior month's revised print. Despite gradual improvement, the labor market continues to present a grim picture. Seasonally adjusted, employment still printed 10.8% below the February 2020 levels, a loss of 973k jobs. Of these, 180k are counted as unemployed, while the other 793k remain out of the labor force. Therefore, while not technically counted as unemployed, a large majority of the potentially active eventually will put pressure on the unemployment rate. One way to gauge the relevance of participation is to calculate a "shadow" unemployment rate, assuming labor market participation as of February and controlling for seasonality. The shadow unemployment rate eased to 17.9% from a 27.2% peak in July (Figure 2) but the gap is still remarkably wide.

Figure 2: Chile actual and "shadow" unemployment rates

% *sa*, 3mma



Colombia: The CAD narrowed to 3.3% of GDP in 2020 and we expect 3.8% in 2021

In Colombia the current account deficit (CAD) came in at 3.3% of GDP in 2020, after widening in 4Q as the economy emerged from the depths of the pandemic. The deficit was 1%-pt narrower than the CAD of 2019, notwithstanding 33% lower oil prices—the main driver the decline in goods exports—as imports collapsed amid lower domestic demand during the pandemic (Table 1).

The main driver of the smaller CAD in 2020, rather, was the income balance, as firms' profit remittances fell while inward transfers (mainly workers remittances) proved resilient. In 4Q however the CAD began to widen, as both imports and profit remittances started recovering from the pandemic. The result was a 4.1% of GDP CAD in 4Q.

We expect these trends to continue in 2021, with a demand recovery pushing the current account deeper into deficit territory. However, the widening pressure will be partially muted by higher oil prices, and a gradual recovery in oil output and

net exports. In our revised forecast, the CAD widens to 3.8% of GDP this year and 3.9% in 2022.

The financial account surplus exceeded the CAD in 2020, with an abundance of financing sources leading to central bank reserve accumulation even after an increase in both Treasury and private deposits offshore, as well as a large increase in the private sector's offshore portfolio holdings.

Looking ahead, we pencil in a recovery of inward FDI this year (to US\$10.5bn from US\$7.7bn in 2020), but still falling a bit short of the CAD. We expect portfolio inflows as well as loans and other sources (particularly the drawdown of the aforementioned government deposits, the flip side of the FCL's "prefinancing") would ably cover the residual, and overall both the public and private sector are entering 2021 with substantial buffers. That said, the increased relevance of portfolio investment—both inward as a funding source for the CAD, and outward as a savings vehicle for the private sector—points to increased exposure to market volatility.

Table 1: Colombia balance of payments

US\$ bn	2019	2H20	2020	2021f	2022f
Current account	-14.3	-4.9	-9.1	-11.5	-12.5
% of GDP	-4.3	-3.4	-3.3	-3.8	-3.9
Goods and services	-12.9	-7.0	-12.4	-11.5	-11.6
Goods	-8.5	-4.5	-7.9	-7.5	-7.4
Exports	42.4	17.0	33.5	40.7	44.4
Oil ¹	16.0	4.4	8.8	14.8	17.5
Non-oil	26.4	12.6	24.7	25.9	26.9
Imports	50.8	21.5	41.4	48.2	51.8
Services	-4.4	-2.5	-4.5	-4.0	-4.2
Income	-10.1	-2.7	-5.4	-9.0	-10.4
Transfers	8.7	4.9	8.7	9.0	9.5
		0.0			
Financial account	16.6	6.0	12.4	11.5	12.5
FDI	11.1	1.9	5.7	6.5	7.5
Inflows	14.3	2.8	7.7	10.5	11.0
Outflows	3.2	1.0	2.0	4.0	3.5
Portfolio investment	-0.3	-2.1	1.3	2.0	2.0
Inflows	0.3	3.5	7.5	5.0	5.0
Outflows	0.5	5.6	6.2	3.0	3.0
Loans and other (net)	5.7	6.2	5.4	3.0	3.0
Errors and omissions	1.0	0.7	1.0	0.0	0.0
Change in reserve assets	3.3	1.9	4.3	0.0	0.0
memo: Brent (avg)	64.0	44.3	43.2	64.0	72.0
Nominal GDP (\$bn)	332.2	141.8	272.0	305.0	321.0

Source: BanRep and J.P. Morgan

Chile

Data releases and forecasts

Week of March 8 - 12

CPI					
Mon		Nov	Dec	Jan	Feb
Mar 8	%m/m	-0.1	0.3	0.7	<u>0.35</u>

%oya	2.7	3.0	3.1	<u>3.01</u>
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Trade balance

Mon		Nov	Dec	Jan	Feb
Mar 8	US\$bn	1.6	1.4	1.7	<u>1.2</u>

Review of past week's data

Economic activity

	Nov	Dec	Jan	
%oya	0.3	-0.4	<u>-1.5</u>	-3.1

Nominal wages

	Nov	Dec	Jan	
%oya	4.6	4.0	<u>4.0</u>	4.2

Source: INE, BCCh, and J.P. Morgan estimates

Colombia

Data releases and forecasts

Week of March 8 - 12

Consumer confidence

Mon		Nov	Dec	Jan	Feb
Mar 8	%	-13.6	-10.4	-20.8	

Review of past week's data

Manufacturing PMI

	Dec	Jan	Feb	
%oya	-11.1	-0.2		-4.5

Exports

	Nov	Dec	Jan	
\$bn	2.5	3.0	<u>2.7</u>	2.6

Source: DANE, BanRep and J.P. Morgan estimates

Peru

Data releases and forecasts

Week of March 8 - 12

Trade balance

Tue-Thu		Oct	Nov	Dec	Jan
Mar 9-11	US\$mn	0.9	0.3	-0.5	<u>-1.9</u>

Policy rate

Thu		Dec	Jan	Feb	Mar
Mar 11	%	0.25	0.25	0.25	<u>0.25</u>

Review of past week's data

Lima CPI

	Dec	Jan	Feb	
%oya	2.0	2.7	<u>2.4</u>	2.4

Source: INEI and J.P. Morgan estimates

United Kingdom

- **Chancellor announced large stimulus boost for this year**
- **Tax hikes pushed back to 2023**
- **We pencil in an earlier start to BoE tightening, but no change is likely for a while**

The Chancellor this week announced fiscal measures that offer a larger net giveaway than expected. While the broad themes were familiar—extra COVID-19 stimulus for most of this year with a roadmap for higher taxes in the future—the balance was tilted much more toward near-term stimulus. Borrowing for the fiscal year starting in April is projected to come in much higher than anticipated at £234bn, or 10.3% of GDP. Some of this is accounted for by the OBR's weaker-than-expected growth forecast of 4% for this year, compared to the BoE's 5.1% projection and our latest 6%. But the giveaway package, while it included most of the expected elements, was more generous and longer-lasting on several fronts as discussed below. All told, the OBR estimates additional stimulus at just under £59bn for the 2021/22 fiscal year, or 2.6% of GDP (we expected closer to 1%). Moreover, the Chancellor has taken a u-turn from previous indications suggesting taxes would go up over the next year, instead pre-announcing measures that start mostly in 2023. Sunak has opted to delay the date of debt reduction, and run the risk of hiking taxes just a year before the 2024 general election.

Table 1: Fiscal forecasts

% of GDP, assumes 0.6 fiscal multiplier

	20-21	21-22	22-23	23-24	24-25	25-26
Deficit	16.9	10.3	4.5	3.5	2.9	2.8
Structural primary deficit	15.5	8.8	3.4	2.4	1.9	1.8
Change	14.2	-6.7	-5.4	-0.9	-0.6	-0.1
Assumed fiscal thrust	8.5	-4.0	-3.3	-0.6	-0.3	-0.1
New measures in Budget	0.3	2.6	0.3	-0.5	-1.0	-1.1

Source: OBR and J.P. Morgan

The combination of the two implies that the fiscal backdrop will be more favorable for growth this year and next. We are hence making cumulative forecast revisions worth 0.9% of GDP, which mean output returns to its 4Q19 level by the end of this year (three months earlier than before). This is still six months earlier than the OBR projects, which would imply somewhat lower borrowing than it forecasts. This raises our 2021 GDP growth forecast from 5.6% to 6.0%. We also think this has implications for the BoE. The extension to the furlough scheme was as we had expected, which as the OBR projected this week, implies a much lower unemployment rate (6.5%) this year than the BoE had in its latest forecast (7.8%). Combined with the BoE's pre-existing view that the output gap at the end of this year will be positive, with inflation re-

turning to the target, this hints at an earlier start to monetary policy tightening. We still think inflation will undershoot the BoE's projection for next year, buying more time, while the net tax increases projected beyond 2023 are large. Those tax increases, however, are not much more than the 1% of GDP we had expected. And on net the delayed start to fiscal tightening should help the economy to recover more smoothly and build up greater resilience. From this perspective a rate hike by early 2023 seems plausible. And barring a material shock from a new virus strain, the window for the BoE to use negative rates in the interim appears to be closing. More generally, this week will not be the last word on significant post-pandemic fiscal interventions. We expect new public spending measures related to vaccine boosters will need to be announced in a spending review later this year. This together with the prospect of higher rates, and hence debt servicing costs over time, will require further tax increases to ensure the debt ratio remains on a falling trajectory (it is barely doing so in the latest projections) excluding the influence of the BoE.

Table 2: GDP forecast revisions

% change over previous period, annualized

	1Q21	2Q21	3Q21	4Q21	1Q22
New	-14.0	25.0	19.9	7.4	3.2
Old	-14.0	25.0	17.2	5.7	4.5
	2021 (FY)	4Q21 (oya)		2022 (FY)	4Q22 (oya)
New	6.0	8.5		6.7	2.3
Old	5.6	7.4		6.6	2.8

Source: J.P. Morgan

Turning to the details of the Budget, the Chancellor announced virus-related support measures worth an extra £43bn for this year, complemented by additional £15.7bn of measures to boost the recovery. Support for households included a six-month extension to the furlough scheme (although this will be tapered from July) worth around £20bn (the self-employment part of this was more generous than expected at £13bn), and other measures included a six-month extension to the uplift to universal credit benefit payments (£2.2bn), an extension of the full cut in VAT for the hospitality sector (£5bn) to the end of September (as well as a phased return to normal by April next year), a three-month extension of the current stamp duty cut to the end of June (as well as a phased return to normal by the end of September), and a freeze in alcohol and fuel duties (£1.1bn). Additional funding in the form of business grants was offered (£5bn), discounted business rates were extended to the end of this year (£6bn), and this was accompanied by a generous tax break for businesses that will bring forward future investment to this year and next (which the OBR estimates will cost £12bn). Future tax increases center mostly on a 6%-pts rise in corporation tax in one go in 2023, and a freeze in income tax thresholds.

Data releases and forecasts

Week of March 8 – 12

Tue	BRC retail sales monitor				
Mar 9	%oya				
12:01am		Nov	Dec	Jan	Feb
	Like for like sales	4.8	4.8	7.1	
	Total	1.8	-0.3	-0.4	

Thu	RICS housing market survey				
Mar 11	% balance, sa				
12:01am		Nov	Dec	Jan	Feb
	Prices in last 3 months	62.8	62.8	49.8	
	Stocks of homes on books	44.7	45.6	42.9	
	Sales in last 3 months	19.1	19.0	17.8	
	Sales to stocks ratio (%)	42.7	41.6	41.4	
	New buyer inquiries	24	12	-28	

Fri	Monthly GDP				
Mar 12	%m/m, sa (unless stated otherwise)				
9:30am		Oct	Nov	Dec	Jan
	GDP (%m/m, sa)	0.6	-2.3	1.2	<u>-4.4</u>
	GDP (%3m/3m, sa)	10.7	4.5	1.0	<u>-2.2</u>
	GDP (%3m/3m, saar)	50.2	19.3	4.1	<u>-8.4</u>
	Breakdown (%m/m,sa)				
	Industrial production	0.9	0.3	0.2	<u>-2.4</u>
	Manufacturing	1.2	1.1	0.3	<u>-2.0</u>
	Construction	1.3	1.7	-2.9	<u>-1.6</u>
	Services	0.6	-3.1	1.7	<u>-5.0</u>

Fri	BoE/TNS Inflation attitudes survey				
Mar 12	%oya, median expectations				
9:30am		2Q20	3Q20	4Q20	1Q21
	Inflation next 12 months	2.9	2.8	2.7	

Fri	Trade balance				
Mar 12	£bn, sa				
9:30am		Oct	Nov	Dec	Jan
	Total	-4.7	-6.6	-6.2	
	Goods	-13.3	-14.8	-14.3	
	Services	8.6	8.2	8.1	

PMI survey final, manufacturing

% balance, sa		Dec	Jan	Feb
Overall index	57.5	54.1		55.1
Output	55.9	50.7		50.5

PMI survey final, services & composite

% balance, sa		Dec	Jan	Feb
Services business activity	49.4	39.5		49.5
Composite				
Output	50.4	41.2		49.6
New orders	49.8	44.1		49.2
Employment	47.2	45.5		49.7

New car registrations

%3m/12m, nsa		Dec	Jan	Feb
Total	-13.7	-26.0		-27.4
Private (ex. bus. & fleet)	-15.7	-28.8		-29.3

PMI survey final, construction

% balance, sa		Dec	Jan	Feb
Overall index	54.6	49.2		53.3

Halifax house price index

Sa		Dec	Jan	Feb
%m/m	0.0	0.3	-0.4	-0.1
%oya	5.8	5.3		5.1
%3m/3m saar	10.6	6.5	6.4	1.8

Review of past week's data

Money supply

Sa		Nov	Dec	Jan
M4 ex IOFCs (%m/m)		1.3	0.5	1.2
M4 ex IOFCs (%3m/3m, ar)	13.3	13.6	13.7	12.8
M4 (%m/m)	0.8	0.9	0.7	0.7
M4 (%oya)	12.9	13.4	13.5	13.3
M4 lending (%m/m) ¹	0.8	0.7	0.2	-0.4
M4 lending (%oya) ¹	4.2	3.9		3.9

¹ Excludes the effect of securitization.

Net lending to individuals (BoE release)

£ bn, average		Nov	Dec	Jan
Consumer credit (ch, m/m)	-1.5	-1.0	-0.9	-2.4
Mortgage approvals (000s, sa)	105.3	105.0	103.4	102.8
Secured lending (ch, m/m)	5.7	5.6	5.6	5.3

Source: Rightmove, CBI, BBA, BCC, GFK, BRC Markit, SMMT, RICS, Land Registry, ONS, BoE, and J.P. Morgan forecasts

Emerging Europe

- **Turkey: Growth is slowing to a sustainable pace**
- **Russia: Early activity data signal continued growth in February**

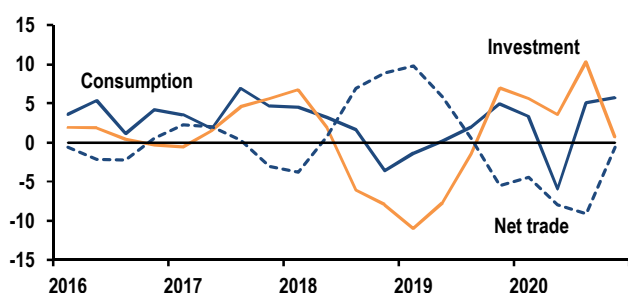
Turkey: GDP grew 1.8% in 2020

In the last quarter of 2020, the Turkish economy expanded 5.9%*oya*, much slower than the market consensus of 6.9% but in line with our more cautious 5.8% forecast. On the back of the strong recovery in 2H, the economy more than offset the pandemic-related plunge in 2Q to secure 1.8% full-year growth and Turkey became one of the very few countries that expanded last year. The growth during the pandemic mainly was due to the credit impulse the government engineered in the first half of the year that led to a sharp rebound in consumption in the second half. This, however, came at the price of increased inflation risk and a rapidly expanding current account deficit. Thus, it is a relief to see growth slowed last quarter. Following the recent monetary tightening we expect growth to further lose momentum, resulting in lower inflation and a narrower CAD in 1H21. Although 2020 growth was in line with our expectations and high-frequency data already show further moderation in growth momentum, we have revised up our 2021 growth forecast modestly to 4.8%/y from 4.6%, mainly reflecting stronger global growth.

There was hardly any surprise in the composition of growth in 4Q. Private consumption (up 8.2%*oya*) was the main contributor to growth (Figure 1) followed by government consumption (up 6.6%*oya*). The consumption contribution in a period of weaker labor markets and depressed sentiment mainly followed the credit impulse. As loan growth has already come down, interest rates are up, and labor market conditions are unlikely to recover soon, the growth contribution from consumption should be quite modest this year.

Figure 1: Turkey contributions to GDP growth

%-pts, *oya*



Source: Haver

While investment in machinery and equipment remained solid, this was offset by the weakness in construction and by

some depletion of inventories. Hence, there was hardly any growth contribution from investment in 4Q. Due to the plunge in travel and transportation, net exports exerted a powerful drag on growth last year. A weak base and some recovery in merchandise exports led to an improvement in 4Q and we expect this to continue as domestic demand weakens and—depending on the timing and success of vaccinations—travel and transportation revenues strengthen in 2021. In short, following the consumption-led sharp recovery in economic activity in 2H, we expect growth to be more moderate and sustainable, allowing room for declines in price and financial stability risks this year.

Russia: February looks solid

The PMI surveys came in slightly softer than we anticipated but are still consistent with our forecast for sequential growth in 1Q and further acceleration in 2Q. The manufacturing PMI rose to 51.5 from 50.9, with all main components including forward-looking ones climbing higher. The services PMI slid to 52.2 from 52.7, with new orders and expectations softening. The composite PMI activity index edged up to 52.6 from 52.3. Alternative business surveys by Rosstat and the OECD show a solid increase in business confidence in mining and manufacturing in the past few months through February. One common trend in surveys has been a firming in employment indices and hiring plans. A stronger labor markets should put the consumer on a stronger footing in coming months, in our view. A more worrying common trend has been the increase in input and output price indices—a bad omen for core inflation in the near term.

On the demand side, auto sales rose a stronger-than-expected 3.5%*m/m*, *sa* and 0.8%*oya* in February, ending the pause of recent months. Even more impressively, imports from non-CIS countries jumped 15.1%*oya* last month. In sequential terms imports grew 3.2%*m/m*, *sa* on top of an even stronger 4.4% gain the previous month. Given the still-low real effective exchange rate, these gains very likely signal that domestic demand is recovering robustly.

Data releases and forecasts

Week of March 8 – 12

Czech Republic:

Mon	Average wage				
Mar 8	% <i>oya</i>				
9:00am					
	Nominal wage	1Q20	2Q20	3Q20	4Q20
	Real wage	5.1	0.6	5.1	—
		1.4	-2.4	1.7	—

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March 5, 2021

J.P.Morgan**External trade**

Tue Mar 9 9:00am CZK bn

	Oct	Nov	Dec	Jan
Trade balance	32.4	33.1	17.7	—
Ytd	139.1	172.2	190.0	—
Ytd a year ago	141.7	153.9	145.7	17.7
Exports %oya	6.3	8.8	18.0	—
Imports %oya	-0.6	2.5	7.4	—

Consumer prices

Wed Mar 10 9:00am

	Nov	Dec	Jan	Feb
%oya	2.7	2.3	2.2	<u>2.2</u>
%m/m, nsa	0.0	-0.2	1.3	—
Food	1.9	-0.1	0.6	—
Housing	1.4	1.2	0.6	—
Transport	0.7	0.6	0.7	—

Industrial output

Fri Mar 12 9:00am

	Oct	Nov	Dec	Jan
%oya	-1.3	-2.2	5.8	—
Production, nsa	1.3	0.4	0.5	—
%m/m, sa	2.7	-1.7	0.2	—

Source: CNB, National Statistics, Eurostat, J.P. Morgan forecasts

Hungary:**Consumer prices**

Tue Mar 9 9:00am

	Nov	Dec	Jan	Feb
%oya	2.7	2.7	2.7	<u>3.1</u>
All items (KSH)	-0.2	0.3	0.9	—
%m/m nsa	6.2	4.9	3.9	—
Food	2.6	2.8	3.1	—
Consumer durables	-7.5	-4.5	-3.5	—
Fuel	1.9	1.7	1.7	—
Services	3.9	4.0	4.1	—
Core inflation	0.4	0.4	0.5	—
%m/m, sa	-0.8	-0.8	-1.4	—
Regulated g&s (NBH)	3.3	3.4	3.4	—
Market g&s (NBH)	—	—	—	—

External trade

Thu Mar 11 9:00am

	Oct	Nov	Dec	Jan
EUR mn	—	—	—	—
Trade balance	895	836	310	—
Ytd	4559	5396	5706	—
Ytd a year ago	3906	4235	4334	—
Exports, %oya	0.1	7.9	11.8	—
Imports, %oya	-5.1	2.6	9.2	—

NBH 1-week deposit facility rate decision

Thu Mar 11

%

On hold: 0.75%

Source: NBH, National Statistics, Eurostat, J.P. Morgan forecasts

Israel:**Balance of payments**

Mon Mar 8 5:00pm

	1Q20	2Q20	3Q20	4Q20
US\$ mn	—	—	—	—
Current account balance	3477	5466	5565	—
% of GDP	3.5	5.9	5.4	—

Real GDP, preliminary

Wed Mar 10 9:00am %oya, unless otherwise stated

	1Q20	2Q20	3Q20	4Q20
Real GDP, nsa	0.3	-7.1	-1.2	<u>-1.3</u>
%q/q, saar	-6.8	-29.9	41.5	<u>6.3</u>

Source: BOI, National Statistics, J.P. Morgan forecasts

Romania:**Real GDP, preliminary**

Tue Mar 9 9:00am %oya, unless otherwise stated

	1Q20	2Q20	3Q20	4Q20
Real GDP	2.4	-10.2	-5.7	<u>-1.5</u>
%q/q, saar	0.8	-40.6	26.7	<u>22.9</u>
Domestic demand	5.2	-9.4	-1.9	—
Private consumption	3.8	-13.3	-4.0	—
GFCF	13.1	2.2	2.8	—
Contribution to %oya GDP	—	—	—	—
Domestic final sales	7.7	-12.9	-2.7	—
Inventories	-0.9	-5.2	-3.8	—
Net trade	-4.4	7.8	0.9	—

Consumer prices

Thu Mar 11 9:00am

	Nov	Dec	Jan	Feb
%oya	2.1	2.1	3.0	<u>3.3</u>
%m/m, nsa	0.1	0.3	1.3	<u>0.5</u>

Inflation likely accelerated in February because of higher oil prices and further increases in tobacco prices. This is happening despite the slowdown in food prices (base is high) and stability in core inflation at 4.3%oya (the adjusted measure, by excluding the price of electricity, was flat at 3.1%oya). Disinflation should ensue in March, for both headline and core.

Industrial output

Fri Mar 12 9:00am

	Oct	Nov	Dec	Jan
%oya	—	—	—	—
Industrial output, nsa	-1.2	-2.9	2.7	—
Industrial output, sa	0.9	0.5	1.6	—
%m/m, sa	1.8	-0.4	0.9	—

External trade

Fri Mar 12 9:00am

	Oct	Nov	Dec	Jan
EUR bn	—	—	—	—
Trade balance	-1.8	-1.6	-2.0	—
Ytd	-14.9	-16.4	-18.4	—
Ytd a year ago	-29.1	-30.6	-32.4	—
Exports, %oya	-1.1	0.6	5.1	—
Imports, %oya	-2.9	1.5	6.4	—

Source: National Statistics, Eurostat, J.P. Morgan forecasts

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March 5, 2021

J.P.Morgan**Russia:****Merchandise trade**

US\$ bn, nsa

	Oct	Nov	Dec	Jan
Trade balance	6.4	7.1	10.6	<u>12.5</u>
Exports	28.2	29.8	35.5	<u>30.0</u>
Imports	21.8	22.7	24.9	<u>17.5</u>

Source: Rosstat, MinFin, AEB Russia, Markit, J.P. Morgan forecasts

Turkey:**Labor market data**

%, unless otherwise stated

	Sep	Oct	Nov	Dec
Unemployment	12.7	12.7	12.9	<u>13.6</u>
Nonfarm payrolls, %oya	-1.7	-2.8	-3.2	<u>-3.6</u>
Labor participation	50.5	50.0	49.3	<u>48.8</u>

Balance of payments

US\$ bn

	Oct	Nov	Dec	Jan
Current account	0.0	-3.6	-3.2	<u>-1.8</u>
Trade balance	-1.3	-3.9	-3.3	<u>-2.0</u>
Exports	17.2	15.9	17.6	<u>17.2</u>
Imports	18.5	19.8	20.9	<u>15.2</u>
Net invisibles/transfers	1.3	2.6	0.7	<u>0.2</u>
Capital account	-2.9	-0.9	-9.2	<u>2.0</u>
Overall balance	-4.2	0.1	-6.7	<u>0.0</u>

Turkey's external balances likely started improving as exports benefited from increased price competitiveness and as imports lost momentum due to the moderation in domestic demand and the normalization of gold imports.

Industrial production

%oya

	Oct	Nov	Dec	Jan
Total	10.4	11.0	9.0	—
Manufacturing	11.2	11.6	9.5	—
Mining	0.1	4.2	6.0	—
Energy and utilities	5.5	7.6	4.9	—

Source: Turkstat, CBRT, Ministry of Treasury and Finance, J.P. Morgan forecasts

Review of past week's data**Czech Republic:****PMI**

Index

	Dec	Jan	Feb
PMI, Manufacturing	57.0	57.0	— 56.5

Real GDP

%oya, unless otherwise stated

	2Q20	3Q20	4Q20
Real GDP, nsa	-10.8	<u>-5.0</u>	-4.9 <u>-5.4</u> -4.7
%q/q, saar	<u>-29.9</u>	-30.5 <u>30.8</u>	31.6 <u>4.2</u> 2.4
Private consumption	<u>-8.4</u>	-8.5 <u>-3.9</u>	-3.7 — -8.3
GFCF	<u>-4.9</u>	-5.1 <u>-11.5</u>	-10.9 — 2.4

Source: CNB, National Statistics, Eurostat, J.P. Morgan forecasts

Hungary:**Real GDP, final**

%oya, unless otherwise stated

	2Q20	3Q20	4Q20
Real GDP	<u>-13.6</u>	-13.4 -4.6	<u>-3.7</u> -3.6
%q/q saar	<u>-46.8</u>	-46.5 <u>54.0</u>	51.7 <u>4.5</u> 5.6
Domestic demand	<u>-6.5</u>	-5.5 <u>-4.6</u>	-4.4 — -4.3
Private consumption	<u>-8.3</u>	-7.9 <u>-2.7</u>	-2.8 — -3.4
Fixed investment	-10.9	-13.7	— 1.2

Retail trade

% change

	Nov	Dec	Jan
%oya wda	-0.7	-4.0	— -1.8
%m/m swda	<u>4.0</u>	0.5 <u>-0.2</u>	-0.9 — 0.6

External trade, final

EUR mn

	Oct	Nov	Dec
Trade balance	<u>895</u>	879 <u>836</u>	800 <u>340</u> 398
Ytd	<u>4559</u>	4597 <u>5396</u>	5397 <u>5706</u> 5795
Ytd a year ago	3906	4235	<u>4334</u>
Exports, %oya	<u>0.4</u>	0.2 <u>7.9</u>	7.6 <u>11.8</u> 11.0
Imports, %oya	<u>-5.4</u>	-4.9 <u>2.6</u>	2.7 <u>9.2</u> 7.1

NBH 1-week deposit facility rate decision

%

NBH held the 1-week depo rate at 0.75%, as expected.

Industrial output

%oya

	Nov	Dec	Jan
Production, wda	<u>4.5</u>	1.7 1.1	— -2.8
Production, nsa	3.4	5.8	— -6.7
%m/m swda	-1.0	<u>-2.4</u>	-2.7 — 0.2

Source: NBH, National Statistics, Eurostat, J.P. Morgan forecasts

Poland:**PMI**

Index

	Dec	Jan	Feb
PMI, Manufacturing	51.7	51.9	— 53.4

NBP rate decision

%

NBP held the base rate at 0.10%, as expected.

Source: NBP, National Statistics, Eurostat, Markit, J.P. Morgan forecasts

Romania:**Retail sales**

%oya

	Nov	Dec	Jan
Retail sales, sa	4.8	4.2	— -2.8
%m/m, sa	0.5	0.2	— -3.3

Source: National Statistics, Eurostat, J.P. Morgan forecasts

Russia:**PMI**

Index

	Dec	Jan	Feb	
PMI, Manufacturing	49.7	50.9	52.0	51.5
PMI, Services	48.0	52.7	54.0	52.2

Consumer prices

%oya, unless otherwise stated

	Dec	Jan	Feb	
%oya	4.9	5.2	5.5	5.7
%m/m, nsa	0.8	0.7	0.6	0.8

Source: Rosstat, MinFin, AEB Russia, Markit, J.P. Morgan forecasts

Turkey:**Gross domestic product**

%oya, real terms

	2Q20		3Q20		4Q20	
GDP	-9.9	-10.3	6.7	6.3	5.8	5.9
Private Consumption	-8.8	-9.6	9.2	8.5	—	8.2
Public Consumption	-2.4	-2.1	1.1	0.8	—	6.6
Capital Formation	-6.2	-6.6	22.5	21.9	—	10.3
Exports	-36.3	-36.9	-22.4	-22.1	—	0.0
Imports	-7.7		15.8	16.4	—	2.5

Consumer prices

% change

	Dec	Jan	Feb	
Consumer prices				
%oya	14.6	15.0	15.2	15.6
%m/m	1.2	1.7	0.5	0.9
Producer prices				
%oya	25.1	26.2	26.5	27.1
%m/m	2.4	2.7	0.7	1.2
Core CPI (I)				
%oya	14.3	15.5	15.8	16.2
%m/m	1.0	1.1	0.0	0.4

Resilient domestic demand, cumulative cost effects arising from currency weakness and higher global commodity prices, and strong inflation inertia have been the main factors behind the rise in inflation in recent months. In February, two factors were particularly responsible for the upside surprise: 1) clothing prices, which declined much less than seasonal trends; and 2) ongoing strength in food prices (which rose by another 2.7%/m/m, pushing annual food price inflation to 18.7%).

Source: Turkstat, CBRT, Ministry of Treasury and Finance, J.P. Morgan forecasts

South Africa & SSA

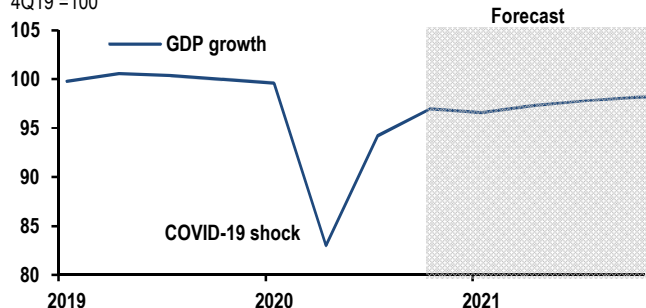
- **South Africa: GDP likely expanded 6%-12%q/q, ar in 4Q20, a slower pace than in 3Q**
- **Current account surplus likely remained large at 4.5% of GDP due to a strong trade balance**
- **PMIs suggest SSA business conditions remain mixed in February, with Kenya dropping while Nigeria gained**

South Africa: GDP recovery likely continued in 4Q20, albeit at a slower pace

We expect next week's GDP report to affirm that South Africa's economy remained vibrant last quarter, expanding between 6% and 12%q/q, ar. While our traditional production-side trackers estimate a rise on the order of 6%-9%, our alternative data indicators suggest a somewhat swifter recovery of 8%-12%. In part, the divergence in GDP estimates between our sets of indicators may be due to the varied recovery across sectors. We estimate mining output to have contracted 1.8%q/q, ar, while the manufacturing sector probably grew 22.3%. At the same time we anticipate strong agricultural output growth buoyed the primary sector.

The services sector likely also was mixed, with retail sales and motor trade marginally stronger, but wholesale sales tracking a sizable contraction. The trade sector appears to have underperformed by historical standards following disappointing Black Friday sales in November. While high-frequency services sector data suggest 4Q was weaker than usual, the alternative indicators we use to proxy for aggregate activity, on balance, corroborate the relatively strong growth narrative. Despite the expected growth in 4Q, economy-wide output remained well below pre-pandemic norms at roughly 3.5% below the 4Q19 level (Figure 1).

Figure 1: South Africa GDP
 4Q19 = 100

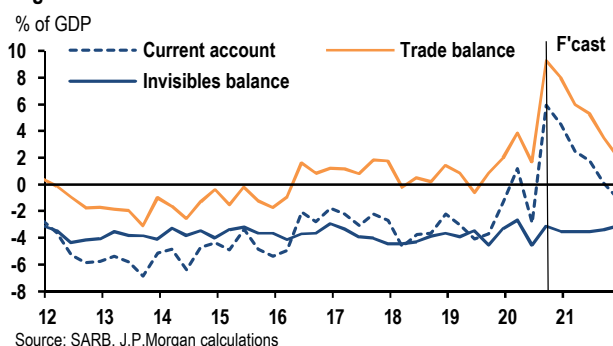


Source: StatsSA, J.P. Morgan calculations

Separately, we expect the SARB's BoP release next week to mark a still-strong 4.5% of GDP current account surplus in 4Q20, from 5.1% in 3Q. The shortfalls in the services, in-

come, and capital transfers balances probably widened somewhat, but the trade surplus likely remained large at 8% of GDP, albeit compressing from 9.3% in 3Q (Figure 2). The unusually large trade surplus reflects a combination of high exports growth, due in part to favorable commodity prices, and a slow normalization of imports. If we are right, the current account should record a 2.2% of GDP surplus in 2020, which we expect to compress to 0.8% this year, as the terms of trade boost fades.

Figure 2: South Africa current account balance

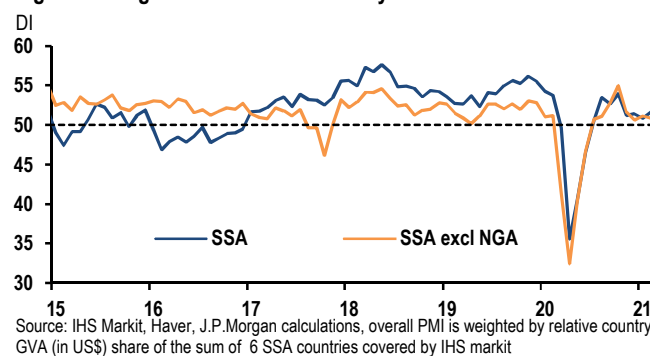


Source: SARB, J.P. Morgan calculations

SSA business conditions steady overall, but mixed across countries

The SSA aggregate PMI inched up 0.8pt to 51.6, led by Nigeria. Excluding Nigeria the PMI dropped marginally to 50.9 (from 51.2), due to a decline in Kenya (Figure 3). The composite details show that developments in output mainly drove the mixed outcomes in the headline PMI.

Figure 3: Weighted SSA whole economy PMI



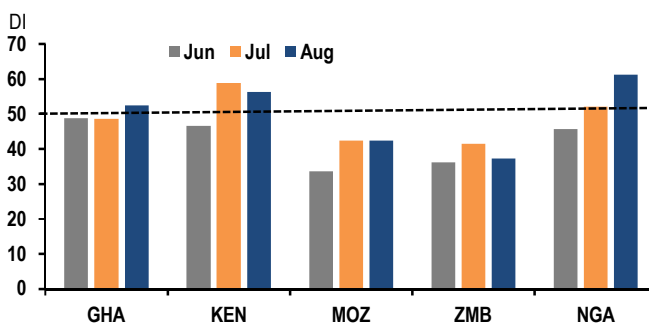
Source: IHS Markit, Haver, J.P. Morgan calculations, overall PMI is weighted by relative country GVA (in US\$) share of the sum of 6 SSA countries covered by IHS markit

Nigerian private-sector business activity was resilient, printing at 52 in February, up from 51.2 in January, with output, new orders, and employment all mirroring this rise. Yet, heightened security issues in the country and the persistent FX illiquidity are significant downside growth risks going ahead. That said, we project the economy to grow by 1.9%y/y this year, after contracting 1.9% in 2020, accelerating to 2.5% in 2022. Similarly, private-sector activity in Ghana held up, with the PMI climbing by 1.3pts to 53.5, buoyed by increased

output and new orders. Meanwhile, Mozambique's PMI increased 1.5pts to 49.1 with the output index gaining 2.4pts to 48.

A 5.2pt drop in the output index to 50.6 led the downshift in business conditions in Kenya (Figure 4). At 50.9, Kenya's private sector activity index marked a nine-month low, consistent with a drop in both external and domestic demand. The outlook for business activity remains encouraging amid expectations of a stronger global growth backdrop, and initial steps toward population inoculation. We expect the economy to expand around 4.5%/y this year, after an estimated 0.5% gain last year.

Figure 4: SSA composite output PMI



Source: IHS Markit, Haver, J.P.Morgan calculations

Zambia's PMI remained in the red, dropping to 47.1 in February, from 47.7 a month earlier. Business conditions in Zambia barely recovered from the COVID-19 hit in 1H20, as a persistently weak domestic growth hamper sentiment. The second wave of COVID-19 infections as well as continued local currency depreciation has been a drag on Zambia's business conditions in recent months. We expect activity to remain muted, with the economy likely to expand at a slow 1.5% pace this year, after an estimated 4.5% contraction last year.

South Africa

Data releases and forecasts

Week of March 8 – 12

Real GDP by output sector					
Tue	%q/q, saar, except as noted	1Q20	2Q20	3Q20	4Q20
Mar 9					
11:30am					
	%q/q, saar	-1.7	-51.7	66.1	12.0
	%o/a	0.1	-17.5	-6.0	-3.1
	Primary	-10.4	-57.4	172.9	—
	Agriculture	36	20	18.5	—
	Mining	-21.5	-72.0	288.3	-1.8
	Secondary	-7.5	-72.0	155.6	—
	Manufacturing	-8.5	-74.9	210.2	22.3
	Tertiary	1.5	-42.0	37.6	—
	GDP ex agriculture	-2.3	-51.7	66.1	—

RMB/BER business confidence

Wed	Index	2Q20	3Q20	4Q20	1Q20
Mar 10					
11:30am					
	Composite total	5.0	24.0	40.0	—

Balance of payments

Thu	R bn, saar, except where noted	1Q20	2Q20	3Q20	4Q20
Mar 11					
11:00am					
	Trade balance	201.7	71.4	453.6	—
	% of GDP	3.9	1.7	9.0	—
	Invisibles balance	-138	-195	-156	—
	% of GDP	-2.7	-4.6	-3.1	—
	Current account balance	63.4	-123.7	297.5	—
	% of GDP	1.2	-2.9	5.9	—

Manufacturing production

Thu	Volume output	Oct	Nov	Dec	Jan
Mar 11					
1:00pm					
	Manufacturing (%o/a)	-3.9	-4.1	1.8	—
	%m/m, sa	2.5	-0.6	-0.1	—

Mining production

Thu	Volume output	Oct	Nov	Dec	Jan
Mar 11					
11:30pm					
	Mining (%o/a)	-6.3	-9.9	0.1	—
	%m/m, sa	-0.8	-2.4	0.5	—

Review of past week's data

New vehicle sales

%o/a, except as noted	Dec	Jan	Feb	
Total vehicle sales	-10.6	-14.3	—	-13.3
%m/m, nsa	-4.7	-7.0	—	8.3

Barclays BER PMI

Index	Dec	Jan	Feb	
PMI (% weights)	50.3	50.9	—	53.0
Business activity (25)	44.9	43.5	—	52.1
New sales orders (30)	45.2	47.2	—	54.0

Source: StatsSA, National Treasury, J.P. Morgan forecasts

SSA

Data releases and forecasts

Week of March 8 – 12

Ghana	Consumer prices				
Mar 10	%o/a	Nov	Dec	Jan	Feb
		9.8	10.4	9.9	—

Review of past week's data

Ghana Markit/Stanbic Bank PMI

Index	Dec	Jan	Feb	
PMI	50.3	51.2	—	52.5

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Economic Research
South Africa & SSA
 March 5, 2021

J.P.Morgan

Kenya Markit/Stanbic Bank PMI

Index				
	Dec	Jan	Feb	
PMI	51.4	53.2	—	50.9

M'bique Markit/Stanbic Bank PMI

Index				
	Dec	Jan	Feb	
PMI	49.3	47.5	—	49.1

Nigeria Markit/Stanbic IBTC Bank PMI

Index				
	Dec	Jan	Feb	
PMI	51.8	50.7	—	52.0

Zambia Markit/Stanbic Bank PMI

Index				
	Dec	Jan	Feb	
PMI	49.0	47.7	—	47.1

Source: Haver, J.P. Morgan forecasts

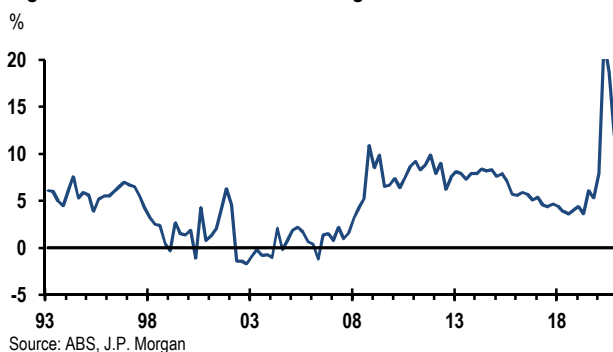
Australia and New Zealand

- **The Australian economy expanded 3.1%q/q in the final quarter of 2020**
- **The RBA left rates unchanged and reiterated its low-for-long guidance**
- **Retail sales rose 0.5% m/m in January, marginally weaker than the preliminary data and consensus expectations**
- **NZ retail card spending expected to edge up marginally in the coming week's February print**

Australia's 4Q GDP data came out stronger than expected, with growth at 3.1%q/q (JPM: 2.1%; consensus: 2.5%). The surprise was mostly due to household consumption, which vaulted 4.3%q/q. Of course we expect consumption to be exceptionally strong during the initial rebound; the question is the degree. The blind spot of services spending, which is under-represented in monthly data, is where the sharpest recovery should be occurring.

The 4Q data verify this spending skew and with labor market outcomes known, the upside in spending was facilitated by an even-sharper-than-expected drop in the saving rate to 12%, from 18.7% (Figure 1). The 4Q saving rate is a couple of percentage points below the level expected at this point. The two most significant swing factors lying ahead for 2021 are the withdrawal of government income support, and the further drawdown in the saving rate, which facilitates consumption growth even as income falls. There is now somewhat less saving rate support in the chamber for 2021 after the 4Q numbers, though of course it is uncertain where the saving rate should settle, and that will in part be driven by asset price performance.

Figure 1: Australian household saving rate



Household disposable income fell a sharp 3.1% in 4Q, as growth in compensation of employees (+1.5%q/q) was offset by the sharp drop in SME profits/gross mixed income (-12.7%q/q) from fading government support, as well as a

plunge in property income (-8.5%q/q) from falling dividend and interest earnings. Corporate profits also were down (-7.5%q/q), meaning the income side of GDP was driven entirely by improvement in government balances from the normalizing of tax/subsidy contribution (+728%q/q). JobKeeper, outlays have fallen from A\$24bn to A\$8bn, roughly in proportion to previously reported data on the number of recipients through the end of 2020. We estimate the remaining drawdown of JobKeeper payments in 1H21 will take a further 6% off profits, and 1% off household income. RBA estimates on the broader household income impact of fading fiscal support including JobSeeker and other measures are in the 3%-5% range.

RBA looks through market volatility

The RBA left the cash rate, YCC, TFF, and QE parameters unchanged at the March board decision. The concluding guidance still says the cash rate will remain at current levels until inflation is "sustainably within" the target band, which will require "materially higher" wage inflation and a "tight labor market." The expectation, backed up by staff forecasts, is that these conditions won't be met until 2024 "at the earliest." This stands behind the commitment to 3Y YCC.

The second-to-last paragraph acknowledges this week's operational choice to bring forward purchases within the current program envelope, to "assist with the smooth functioning of the market." The governor also reiterated that the Bank is "prepared to do more if necessary" after the current A\$200bn parcels are completed. That decision (along with extension of YCC to a new target band) will be data-dependent and lies in the future.

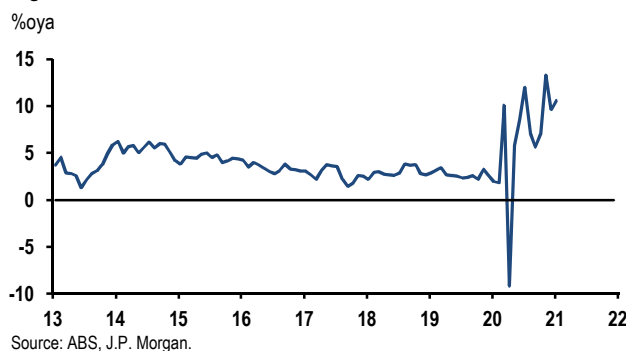
Openness to doing even more QE later on doesn't directly release capacity, though after upsizing the program in February it wasn't automatic that the RBA would immediately flag more upside. Further, potential future upsizing does allow greater scope to run ahead of schedule in the current purchase flow, if needed. This should be somewhat comforting for the market given the disorderly sell-off of recent weeks, as it increases capacity for the RBA to iron out the kink in post-YCC bonds without sacrificing too much firepower in other parts of the curve. There was a slight additional tweak to the extra operational facilities, too, in that the RBA will now consider duration-neutral switch transactions, though only on a reverse-enquiry, right of refusal basis, and subject to a number of conditions. This gives an additional means for the RBA to recycle balance sheet capacity, in limited circumstances.

Retail: Services to outpace goods

Australian retail sales rose 0.5% m/m in January, one-tenth less than in the preliminary estimate released two weeks ago.

The annual rate remains elevated, though has likely peaked and is forecast to move lower from here (Figure 2). The composition of spending was mixed, with food (+1.6%/m/m) and “other” (+1.4%/m/m) retailing strong, while sales in the clothing/footwear/apparel (-3.6%/m/m) and cafes/restaurants (-0.8%/m/m) sub-groups gave up some ground. The three-day lockdown in Queensland had deleterious effects on the national aggregate, with sales in that state declining 1.5%/m/m and materially underperforming Australia’s other regions.

Figure 2: Australian retail sales



The 4Q GDP print highlighted stronger-than-anticipated consumption in late 2020, skewed toward services spending and facilitated by a draw-down in the household saving rate. We expect consumption to grow robustly in 2021, and forecast services to outperform goods spending as COVID-19 restrictions are eased and vaccination numbers increase. Consistent with that outlook, the retail data have been decelerating noticeably for a while now.

Australia

Data releases and forecasts

Week of March 8 – 12

Tue		NAB business confidence				
Mar 9			Nov	Dec	Jan	Feb
11:30am	Index		13	5	10	-

Wed		Westpac-MI consumer confidence				
Mar 10			Dec	Jan	Feb	Mar
10:30am	%m/m		4.1	-4.5	1.9	-

Review of prior week’s data

Building approvals

	Nov	Dec	Jan
%m/m	5.0	12.0	-19.4

Real GDP

	Jun	Sep	Dec
%q/q	-7.2	3.4	3.1

Trade balance

	Nov	Dec	Jan
A\$bn	5.8	6.7	40.4

Retail sales

	Nov	Dec	Jan
%m/m	1.1	0.6	0.6

New Zealand

Data releases and forecasts

Week of March 8 – 12

Tue		Retail card sales				
Mar 9			Nov	Dec	Jan	Feb
11:30am	%m/m		-0.2	-0.6	-0.4	-

Review of prior week’s data

No data releases of note.

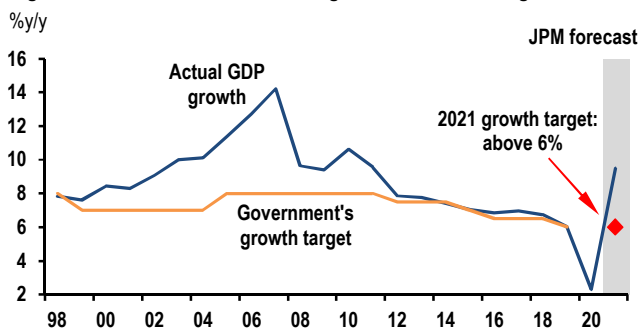
Source: ABS, Stats NZ, J.P. Morgan forecast

Greater China

- **China: 2021 government work report stresses normalization of macroeconomic policy**
- **PMIs eased further in February, we raise 2021 GDP growth forecast to 9.5%**
- **Hong Kong: Retail sales slump deepened further to -14.5%oya in January**
- **Taiwan: Manufacturing PMI rose to 11-year high in February**

In China's 2021 government work report (GWR), the government set the 2021 growth target at "above 6%", emphasizing reform, innovation, and high-quality growth (Figure 1). The GWR reiterated the importance of continuity, stability, and sustainability in macroeconomic policy to ensure steady economic growth, implying a partial reversal of post-pandemic policy support with a policy cliff avoided. The fiscal deficit target was lowered to 3.2% of GDP from 3.6% in 2020, with the overall government bond issuance quota lowered to 7.22 trillion yuan. M2 and TSF growth will be basically consistent with nominal GDP growth.

Figure 1: China's annual real GDP growth actual vs. target



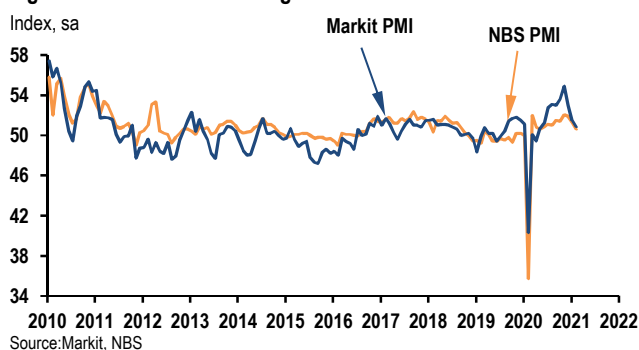
We maintain our forecast of a 3.1% of GDP fiscal drag this year (with a 13.7% of GDP augmented fiscal deficit), on stepped-up efforts to contain off-budgetary fiscal spending. We expect TSF growth to moderate to 11.6%oya in 2021, compared to the 13.7%oya peak last year. This implies China's debt/GDP ratio may ease by 2-3%-pts this year, after the 24%-pt jump in 2020.

PMIs eased further in February, we raise 2021 GDP growth forecast to 9.5%

China's February PMIs fell short of expectations. The NBS manufacturing PMI dropped 0.7pt to 50.6, a bigger decline than the usual seasonal pattern, with further broad-based easing across the output, new orders, and export orders components. The Caixin/Markit manufacturing PMI also declined,

by 0.6pt to 50.9, and the NBS non-manufacturing PMI was down by 1.0pt to 51.4 (Figure 2). The easing in PMI readings points to a near-term economic slowdown, but we expect the negative impact to fade with the removal of cross-region travel restrictions and the acceleration of the global recovery.

Figure 2: China manufacturing PMIs

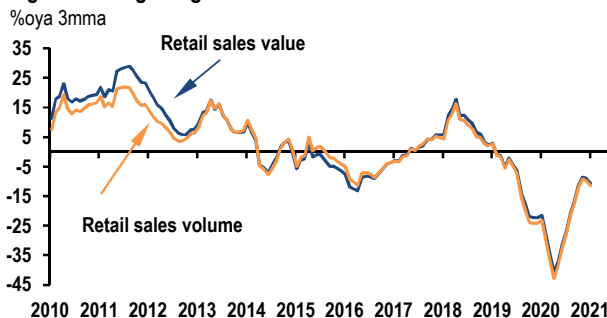


We maintain our 1Q growth forecast at 6.0%q/q, saar, and revise up 2Q growth by 0.5%-pt to 5.0%q/q, saar, lifting full-year growth to 9.5% from 9.4%. Meanwhile, we revised our estimated fiscal drag for 2021 to 3.1% of GDP from 2.7% to reflect the government's fiscal consolidation efforts, especially addressing the hidden local government debt problem via reduced LGFV bond issuance. We also remove our low-conviction call of policy rate cuts in 2021 and expect the PBOC to keep policy rates (7-day reverse repo rate, MLF rates) unchanged. Our forecasts of a partial reversal of credit stimulus (TSF growth slows to 11.6% in 2021) and lower financial market interest rates remain unchanged.

Hong Kong: Retail sales slump deepened further to -14.5%oya in January

Hong Kong's January retail sales undershot market expectations again with sales volume and value falling 14.5%oya and 13.6% respectively (Figure 3). The weakness in part was due to seasonality, as the LNY holiday fell in January last year.

Figure 3: Hong Kong retail sales value and volume

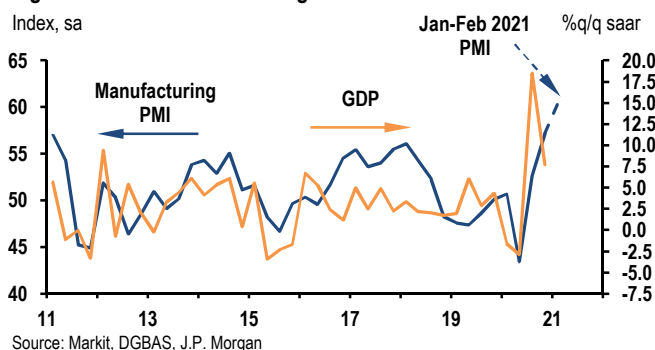


The near-term outlook for retail sales remains precarious given growing concerns over restaurant clusters, and continued cross-border travel restrictions until at least 3Q. However, given the imminent vaccine rollout and the HK\$5,000 consumption coupon for each adult resident in the FY21/22 budget, we expect the retail sector to grow firmly in 2H21.

Taiwan: Manufacturing PMI rose to an 11-year high in February

Taiwan's headline manufacturing PMI rose a further 0.2pt to 60.4 in February, the highest reading since April 2010, on broad-based gains across the key components, including output, new orders, export orders, and supplier delivery times (Figure 4).

Figure 4: Taiwan manufacturing PMI and GDP



We expect the constructive global demand outlook, along with sustained, structural tech demand, to support further solid exports growth for Taiwan, especially from 2Q21 onwards. From a cyclical perspective, lean inventories, along with a solid external demand outlook, suggest the inventory cycle will support manufacturing activity in the near term.

China:

Data releases and forecasts

Week of March 8 - 12

Sun Merchandise trade

		Oct	Nov	Dec	Jan-Feb
Mar 7	US\$ bn				
	Balance	58.1	75.5	78.2	<u>78.2</u>
	Exports	236.2	267.0	281.9	<u>401.5</u>
	%oya	10.9	20.6	18.1	<u>37.5</u>
	Imports	178.2	191.5	203.8	<u>323.2</u>
	%oya	4.4	3.9	6.5	<u>8.0</u>

Sun FX reserves

		Nov	Dec	Jan	Feb
Mar 7	US\$tn				
	Foreign reserves	3.18	3.22	3.21	<u>3.20</u>

Tue Monetary aggregates

		Nov	Dec	Jan	Feb
Mar 9	%oya, bn yuan				
	M2	10.7	10.1	9.4	<u>9.1</u>
	TSF flow	2136	1719	5170	<u>1100</u>
	New loan creation	1430	1260	3580	<u>1091</u>

Wed Producer prices (NBS)

		Nov	Dec	Jan	Feb
Mar 10	% change				
9:30am	%oya	-1.5	-0.4	0.3	<u>1.7</u>
	%m/m sa	0.6	0.9	0.8	<u>1.0</u>

Wed Consumer prices

		Nov	Dec	Jan	Feb
Mar 10	% change				
9:30am	%oya	-0.5	0.2	-0.3	<u>-0.4</u>
	%m/m sa	-0.3	0.6	0.2	<u>0.1</u>

Review of past week's data

Purchasing managers index (28 Feb)

		Dec	Jan	Feb
Index				
	Overall (NBS)	51.9	51.3	<u>51.2</u> 50.6
	Output	54.2	53.5	<u>51.9</u>

Purchasing managers index (1 Mar)

		Dec	Jan	Feb
Index				
	Overall (Markit)	53.0	51.5	<u>51.5</u> 50.9
	Output	55.4	52.5	<u>51.9</u>

Hong Kong SAR:

Data releases and forecasts

No data releases.

Review of past week's data

Retail sales volume (3 Mar)

		Nov	Dec	Jan
% change				
	%oya	-4.7	-14.0	<u>-11.0</u> -14.5
	%m/m, sa	2.5	-2.9	<u>0.8</u> -1.5

Taiwan:

Data releases and forecasts

Week of March 8 - 12

Tue Consumer prices

		Nov	Dec	Jan	Feb
Mar 9	% change				
4:00pm	%oya	0.1	0.1	-0.2	<u>1.6</u>
	%m/m, sa	0.3	0.3	0.6	<u>0.3</u>

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Economic Research**Global Data Watch**

March 5, 2021

J.P.Morgan

Merchandise trade

Tue Mar 9 US\$bn

	Nov	Dec	Jan	Feb
Balance	5.3	5.8	6.2	<u>5.6</u>
Exports	32.0	33.0	34.3	<u>27.8</u>
%oya	12.0	12.0	36.8	<u>9.6</u>
Imports	26.7	27.2	28.1	<u>22.2</u>
%oya	10.0	0.9	29.9	<u>0.4</u>

Review of past week's data**Markit manufacturing PMI (2 Mar)**

Index, sa

	Dec	Jan	Feb	
Overall	59.4	60.2	<u>59.8</u>	60.4
Output	59.9	58.8	<u>59.2</u>	

Source: NBS, China Customs, Hong Kong Census and Statistics Department, Taiwan Ministry of Economic Affairs, DGBAS, MoF, J.P. Morgan forecasts

Korea

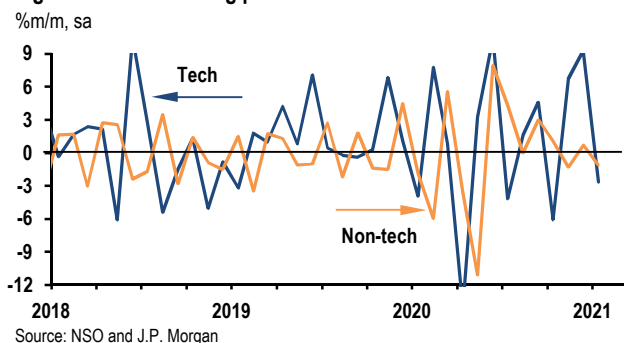
- **IP unexpectedly fell in January, likely to be temporary**
- **Manufacturing PMI rose strongly further in February to the highest level since 2010**
- **Customs exports rose further in February**
- **Consumer inflation turned up to 1.1%oya; we expect a further rise to mid-2% level in 2Q**

In this week's release, industrial production fell unexpectedly in January yet signals from the February manufacturing PMI and customs exports offset the disappointment. The January IP fall looks like a temporary setback due to technical corrections; forward-looking indicators suggest that strong manufacturing sector growth momentum should continue. As a result, we maintain our 1Q21 GDP growth forecast at 3.0%/q, saar. Meanwhile, we have upgraded the annual consumer inflation forecast from 1.6%/y to 1.8%, marking to market on the higher commodity price outlook and signals on a build-up of supply-side price pressures.

IP disappointed in January

At odds with customs exports growth, industrial production fell short of expectations in January, sliding 1.6%/m, sa after a downwardly revised 2.7% gain in December. Automobile production rebounded strongly as high-frequency indicators suggested, boosted by easing drags from labor strikes. Yet other non-tech production stepped back after recent months' strong gains, at odds with robust demand-side conditions notably in external demand. Tech production also fell, likely on technical payback from recent months' strong growth driven by new handset product launches (Figure 1).

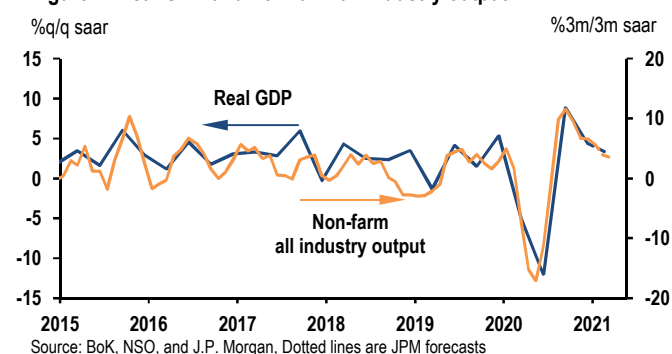
Figure 1: Manufacturing production



Non-manufacturing production was resilient, notably as services output edged down 0.2%/m, sa amid a resurgence of COVID-19 cases and strict social distancing. The impact of the third COVID-19 wave since November was more benign than feared, and gradual easing in social distancing in late 1Q

and an additional fiscal stimulus package including cash transfers should contribute to a gradual recovery in service activity. In all, non-farm all-industry output should slow for the rest of this quarter, yet we believe it is on track to meet our 3.0%/q, saar real GDP growth projection (Figure 2).

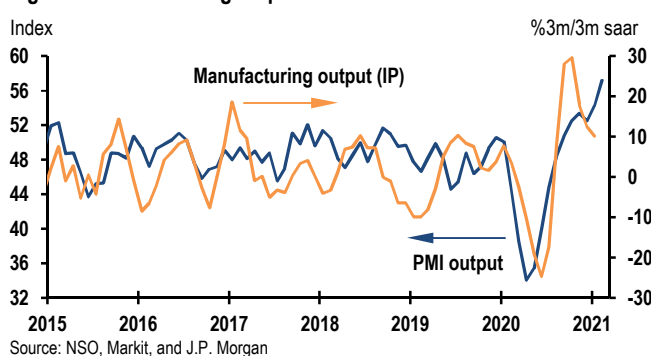
Figure 2: Real GDP and non-farm all industry output



Manufacturing PMI rose strongly further

The manufacturing PMI jumped 2.1pts in February to 55.3, the highest level since April 2010. The strong gain was due to the output (+2.9pts to 57.2) and new orders (+3.0pts to 57.1) indices, suggesting that January's IP drop was a temporary slip, and that the strong trend growth in IP should continue (Figure 3).

Figure 3: Manufacturing output - PMI vs IP



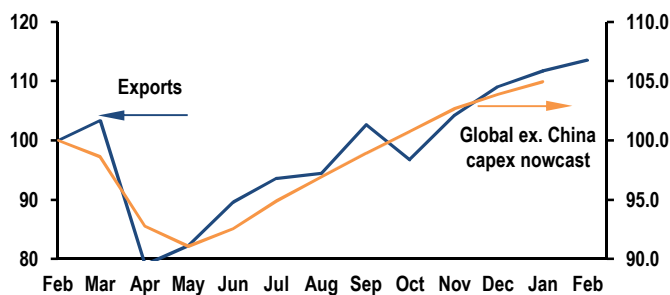
In terms of PMI details, the input price index surged 6.3pts for the third straight monthly gain and stocks of purchases rose 2.1pts, likely reflecting price pressure from rising raw material prices and inventory buildups by manufacturing companies in response to the risk of supply-chain bottlenecks. While production disruption from supply-chain bottlenecks (e.g., semiconductor shortages for automobile production) is a downside risk to IP growth, the manufacturing PMI's future output index rose a further 3.3pts on top of the 4.7pt jump in January, suggesting that Korean manufacturing firms think the opportunity for output expansion from excess demand outweighs the possible drags from the bottlenecks.

Exports rose further in February

In another signal of manufacturing sector resilience, customs exports rose 1.6%/m/m, sa in February following a 2.4% gain in January, running at a strong 46.9%3m/3m, saar. By product, both tech and non-tech exports rose broadly in February, up 1.9%/m/m, sa and 1.4%, respectively, while three-month trend growth is still stronger in tech exports. Korea's strong trend exports growth has been aligned with the global capex recovery (Figure 4); exports trend growth should remain robust in 2021 amid the expected upturn in global GDP growth.

Figure 4: Korea's customs exports

2020 Feb = 100



Consumer inflation should rise further

Korea's consumer price inflation turned up to 1.1%/oya in February, after hovering around 0.5%-0.6% during the previous three months. Seasonally adjusted, consumer prices rose 0.2%/m/m, sa and 3.1%3m/3m, saar, on strong increases in oil and agriculture prices. We expect over-year-ago inflation to shoot up to mid-2% in 2Q due to supply-side price pressures and the low base last year, and then stabilize at around 2%. The stronger global commodity price outlook adds supply-side price pressure, and the robust rise in farm product prices (currently at 16.2%/oya) will gradually spill over to restaurant service prices. As we also expect core prices to firm further through 2021 with an upturn in GDP growth; we now expect annual inflation to mark 1.8%/y/y in 2021 (vs. 1.6% in our previous forecast and 1.3% in the BoK forecast).

Data releases and forecasts

Week of March 8 – 12

Current account					
Tue	US\$ bn, nsa				
Mar 9					
8:00am					
	Balance	Oct	Nov	Dec	Jan
		11.6	9.2	11.5	<u>7.5</u>

Review of past week's data

Customs trade (Mar 1)

US\$ bn, nsa

	Dec	Jan	Feb
--	-----	-----	-----

Trade balance	6.7	3.8	<u>4.8</u>	2.7
Exports	51.3	48.0	<u>46.8</u>	44.8
Imports	44.6	44.3	<u>44.0</u>	42.1

Industrial production (Mar 2)

% change

	Nov		Dec		Jan	
%oya	<u>0.5</u>	0.1	<u>3.4</u>	2.5	<u>12.0</u>	7.5
%m/m, sa	<u>0.3</u>	0.5	<u>3.7</u>	2.7	<u>2.0</u>	-1.6

Producer shipments and inventories (Mar 2)

%oya

	Nov		Dec		Jan	
Shipments	<u>4.2</u>	1.1	<u>2.3</u>	2.7	<u>13.8</u>	8.7
Inventories	<u>4.1</u>	-2.5	<u>4.4</u>	0.1	<u>4.6</u>	-2.5

Composite leading indicator (Mar 2)

2015=100, sa

	Nov		Dec		Jan	
Index	<u>123.9</u>	122.6	<u>124.8</u>	123.4	<u>125.6</u>	124.2

Service activity (Mar 2)

% change

	Nov		Dec		Jan	
%oya	-1.4		-2.2		<u>3.4</u>	-2.0

Consumption goods sales (Mar 2)

% change

	Nov		Dec		Jan	
%oya	<u>4.5</u>	-1.3	<u>2.0</u>	-2.1	<u>0.9</u>	0.0
%m/m, sa	<u>0.9</u>	-0.3	<u>0.2</u>	0.1	<u>2.0</u>	1.6

Purchasing Managers Index (Mar 2)

Index, sa

	Dec		Jan		Feb	
PMI - Manufacturing	52.9		53.2		<u>53.5</u>	55.3

Consumer prices (Mar 4)

% change

	Dec		Jan		Feb	
%oya	0.5		0.6		<u>1.3</u>	1.1
%m/m, nsa	0.2		0.8		<u>0.7</u>	0.5

Real GDP 2nd estimate (Mar 4)

% change

	2Q20		3Q20		4Q20	
%q/q, sa	-3.2		2.1		<u>1.1</u>	1.2
%q/q, saar	-12.0		8.8		<u>4.4</u>	5.0
%oya	-2.7		-1.1		<u>1.4</u>	-1.2

Source: BoK, Customs office, NSO, Markit, and J.P. Morgan forecasts

ASEAN

- **Indonesia's high-frequency data slowed amid rising COVID-19 cases in January but to improve thereafter**
- **We expect headline CPI to be shielded from rising energy prices**
- **Forecast for recovery remains in place; we expect current account deficit to widen**
- **BI expected to remain on hold through 2021 following February rate cut, mindful of interest parity conditions**

Indonesia's incoming high-frequency data suggest some slowing in January, with both auto sales and capital goods imports taking a breather. This, in our view, reflects a temporary pause following the escalation in COVID-19 cases late last year and into this year. With COVID-19 cases now stepping back and mobility increasing, we expect that the recovery should resume. For these reasons, we pared 1Q21 growth to 4%q/q, saar from 7% previously and we now expect that growth could firm to 6% in 2Q21 from 5% previously, leaving full-year 2021 growth at 5%y/y from 5.6% previously. Despite the expected firming in activity over 2021, we expect inflation will remain around 2%oya for much of this year, owing to modest passthrough from this year's increase in crude oil prices (as with last year's fall in global oil prices), as long the price does not rise materially above US\$70/bbl.

With growth expected to resume at trend rates, we expect the current account deficit to widen to 1.4% of GDP this year from 0.5% last year. Moreover, while reforms related to the Omnibus law could catalyze FDI inflows into Indonesia, we expect this to occur late in the year. In the interim, a rise in core market yields has already tightened bond yield spreads. That said, how capital flows and the overall balance of payments evolve over the year as the current account deficit widens and the fiscal deficit remains well above pre-COVID-19 norms, remains to be seen. Indeed, for domestic assets to remain attractive to foreign investors, interest parity conditions suggest a move up in domestic rates, especially if the currency does not strengthen further.

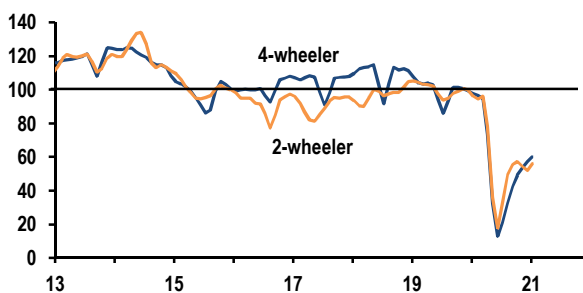
A January setback to activity

The high-frequency data slowed in January, with both consumer durable and capital goods demand easing. Motor vehicle sales have been recovering since the trough in June, reaching around 58% of the 4Q19 pre-COVID-19 level (Figure 1). In particular, 2-wheeler sales have stabilized since 4Q20 and suggest rising caution among consumers. Four-wheeler auto sales have fared better, suggesting more resilience among higher-income households. Capital goods imports and truck sales have also stalled in January (Figure 2). Despite the near-

term setback, which we attribute to the rise in COVID-19 cases and subsequent decline in mobility, we expect demand to rise again once cases abate and mobility increases, as appeared to be the case in February (Figure 3).

Figure 1: Indonesia motor vehicle sales

Index, 4Q19=100, 2mma, sa

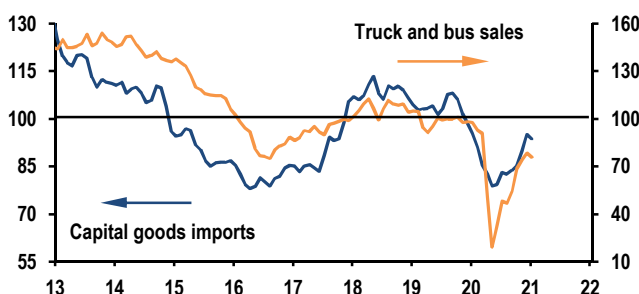


Source: Astra

Figure 2: Indonesia capital goods imports and heavy vehicle sales

Index, 2015=100, 2mma, sa, US\$ terms

Index, 2015=100, 2mma, sa

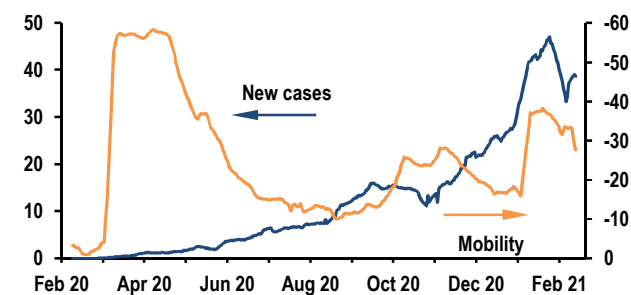


Source: GAI and BPS

Figure 3: Indonesia new COVID-19 cases and mobility

Persons/mn. population, 7-day moving ave.

% deviation from baseline

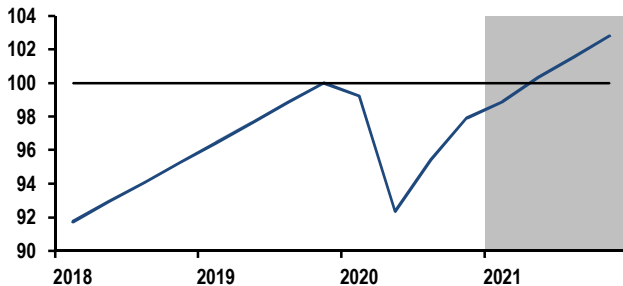


Source: WHO and Google

Thus, given the wobble in activity, we have trimmed our 1Q21 growth forecast to 4%q/q, saar from 7% but expect this setback to be temporary, with 5%-6% trend growth resuming in 2Q21. If this growth path is realized, it would imply a return to the pre-COVID-19 level of activity between 2Q21 and 3Q21 (Figure 4).

Figure 4: Indonesia real GDP

Index, 4Q19=100, sa



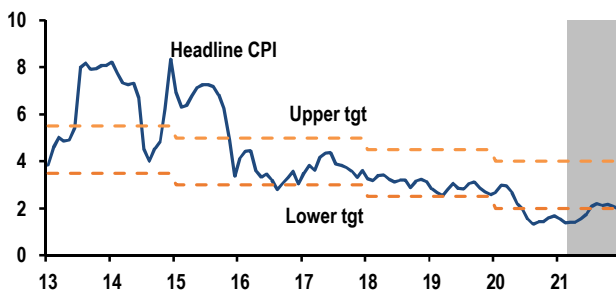
Source: BPS and J.P. Morgan forecasts in shaded area

Benign CPI path through 2021

Despite the projected growth recovery, we maintain that the outlook for inflation remains benign and anticipate that headline CPI inflation will remain at the lower bound of the 2%-4% oya inflation target range through 1H21 (Figure 5). Much of the benign headline CPI path owes to the modest pass-through of the decline in crude oil prices last year, with current retail fuel prices calibrated to a crude oil price range of US\$63-68/bbl. Thus retail fuel prices will not need to be adjusted until crude oil prices reach around US\$70/bbl.

Figure 5: Indonesia headline CPI

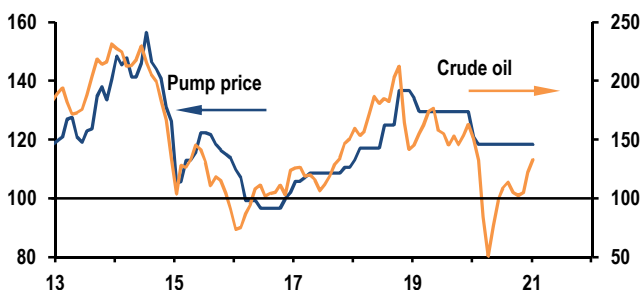
% oya



Source: BI, BPS and J.P. Morgan forecasts in shaded area

Figure 6: Indonesia pump price and crude oil

Index, 2016=100, local currency terms, both scales



Source: Pertamina and J.P. Morgan

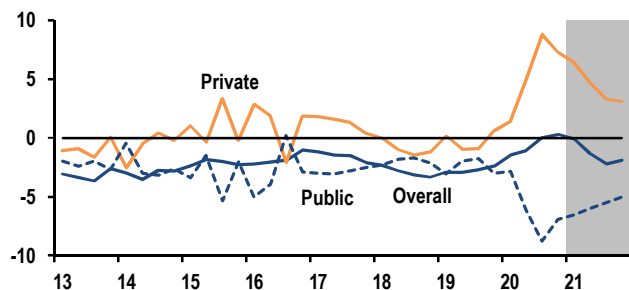
Other considerations framing BI policy

At its February 18 meeting, Bank Indonesia cut its policy rate by 25bp to 3.50% (J.P. Morgan: no change; consensus: 25bp cut). We had expected a cut in 1Q21 and following the February move we now expect the BI rate will remain unchanged at 3.50% through 2021. Following the meeting, BI noted that room for further cuts is "more limited." Aside from the rate cut, to encourage credit growth, BI raised the loan to value ratio for real estate to 100% and also reduced the down payment for motorized vehicles to 0%. These measures reflect efforts to catalyze bank lending amid weak demand.

Following the substantial narrowing of the current account deficit (CAD) to 0.5% of GDP in 2020 from 2.7% in 2019, we expect the CAD to widen to 1.4% of GDP this year as domestic demand recovers. This forecast pencils in a 5.7% of GDP public sector deficit, down a touch from the 6% shortfall recorded last year. This implies that the net private savings surplus will drop to 4.3% of GDP from 5.5% last year. Its pace of narrowing, together with the volume of capital inflows, will be important to monitor given their implications for domestic fiscal financing (Figure 7).

Figure 7: Indonesia S-I gap

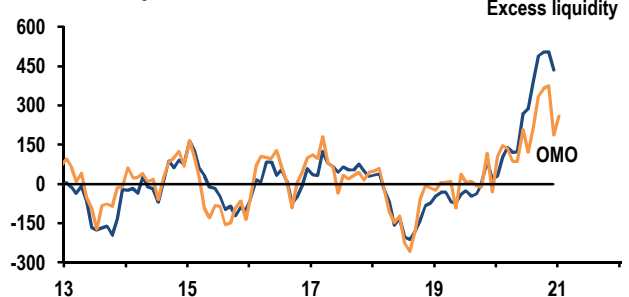
% GDP



Source: BI, BPS, MOF and J.P. Morgan forecasts in shaded area

Figure 8: Indonesia banking system excess liquidity and BI OMO

IDR trillion, change over 6-mos



Source: BI

As domestic demand recovers this year, we anticipate that the private S-I gap will narrow and banking sector excess liquidity will decline as credit demand firms, effectively reversing last year's trends (Figure 8, also see [here](#) and [here](#)). Thus, how policymakers navigate between the clearing level of rates to ensure the attractiveness of domestic fixed income assets—with its implications for inflows—and stronger US\$ demand as the investment cycle recovers remains to be seen.

Given Bank Indonesia's mandate, we expect that its first policy preference would be to ensure a stable currency. If so, interest parity amid higher market yields in DM would suggest there is limited room to lower the policy rate.

ASEAN

Indonesia

Data releases and forecasts

Week of March 8 – 12

No data releases.

Review of past week's data

Consumer prices (Mar 1)

% change

	Dec	Jan	Feb	
All items, %oya	1.7	1.6	<u>1.6</u>	1.4
%m/m, sa	0.3	0.1	<u>0.2</u>	

Indonesia's February headline inflation came in in line with expectations at 1.4%oya (consensus: 1.4%oya; J.P. Morgan: 1.6%oya) and up 0.2m/m, sa. In trend sequential terms, headline inflation rose 2.4%3m/3m, saar, while core prices came in at 1.5%3m/3m, saar. The prior sequential increases in inflation owed mainly to food prices and this has eased in February. Overall, the outlook for underlying inflation remains benign given the generally weak demand conditions, and we look for headline CPI to remain at the lower bound of the inflation target range of 2%-4%oya through 1H21. A large part of the benign path of headline CPI owes to the modest passthrough from the decline in crude oil prices last year and thus the adjustment is similarly expected to be modest for as long as oil prices do not rise materially above US\$70/bbl.

Malaysia

Data releases and forecasts

Week of March 8 – 12

No data releases.

Review of past week's data

BNM monetary policy meeting (Mar 04)

% pa

	Dec	Jan	Feb
O/N policy rate	1.75	1.75	<u>1.75</u>

Bank Negara left the overnight policy rate (OPR) unchanged at 1.75% in line with expectations (J.P. Morgan and consensus: on hold). Given the anticipated economic recovery from 2Q21 onwards, the easing in loan repayments from the existing debt moratoria and targeted repayment measures, and the risk of financial instability, we think Bank Negara will likely stay on hold throughout 2021.

Philippines:

Data releases and forecasts

Week of March 8 – 12

Merchandise trade

Mar 12 US\$ bn, nsa

	Oct	Nov	Dec	Jan
9:00am				
Trade balance	-1.8	-1.7	-2.2	<u>-2.4</u>
Exports, %oya	-1.3	4.0	-0.3	<u>2.8</u>
Imports, %oya	-18.8	-18.3	-9.1	<u>-9.8</u>

Review of past week's data

Consumer prices (Mar 5)

% change

	Dec	Jan	Feb	
All items, %oya	3.5	4.2	<u>4.6</u>	4.7
%m/m, sa	0.8	1.1	<u>0.3</u>	0.1

Philippine consumer prices rose 0.1%3m/3m, sa, leaving overall headline inflation broadly in line with expectations at 4.7%oya in February (J.P. Morgan: 4.6%oya; consensus: 4.7%). In sequential terms, overall CPI expanded at a 9.6%3m/3m, saar, pace. Meanwhile, the rise in core prices remains more muted and fell to 0.2%3m/3m, sa (from 0.5% last month), leaving core CPI at 3.5%oya in February. Food and transport costs remain the main culprits of high headline inflation.

Headline inflation is set to remain around current levels and above the BSP target in coming months, and likely fall back into the target range in 3Q, considering base effects on fuel prices picking up despite food price pressures likely subsiding. We think the BSP will stay on hold through 2021 and maintain its accommodative policy stance given the fragile economic recovery.

Singapore:

Data releases and forecasts

Week of March 8 – 12

No data releases.

Review of past week's data

Purchasing managers index (Mar 02)

% change

	Dec	Jan	Feb	
PMI	50.5	50.7	<u>50.7</u>	50.5
PMI—electronics	51.2	51.0	<u>51.0</u>	50.8

Thailand:

Data releases and forecasts

Week of March 8 – 12

No data releases.

Review of past week's data

Consumer prices (Mar 05)

% change

	Dec	Jan	Feb	
All items, %oya	-0.3	-0.3	-0.1	-1.2
%m/m, sa	0.5	0.1	0.1	-0.9

Thailand's February headline consumer prices fell 0.9%⁰/m, sa to reach -1.2%⁰oya, much below expectations (consensus: -0.2%⁰oya, J.P. Morgan: -0.1%⁰oya). Core CPI was flat on the month to reach 0.0%⁰oya.

The unexpectedly low February CPI outcome owed to government measures to reduce both electricity and water charges for February and March. Without the measures, headline CPI would otherwise have been -0.1%⁰oya. It is not clear whether these measures will continue beyond March. Nonetheless, we expect that headline could breach 2%⁰oya in April, assuming no further extension of the measures.

Given the forecast profile for growth and inflation, we thus expect the BoT to remain on hold throughout the rest of the year.

Vietnam:

Data releases and forecasts

Week of March 8 – 12

No data releases.

Review of past week's data

No data releases.

Source: Central Bureau of Statistics, Indonesia; Department of Statistics, Malaysia Coordination Board and National Statistics Office, Philippines, Singapore Statistics Department, Office for Industrial Economics, Thailand; Bank of Thailand; General Statistics Office of Vietnam; J.P.

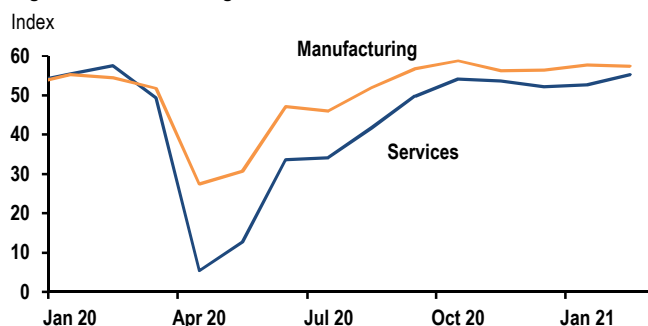
India

- **PMI reveals that activity continues to recover**
- **Services now lead the recovery, after lagging before**
- **Cost pressures continue to rise but until now pass-through by firms has been limited**
- **Imports grow at a fast pace**

This week both PMI and trade data showed that activity continued to recover in February. The PMI report also marked catch-up by services, which so far have lagged the manufacturing recovery. The forward-looking new orders also came strong, which augurs well for future activity. Meanwhile, both exports and imports continue to grow but in recent months, imports growth has been particularly strong.

The PMI report also revealed that unabated cost pressures are hurting business margins and pose inflation risks when demand normalizes. We will watch next week's February CPI closely to see if it reflects the recent jump in global commodity or food prices. We expect February headline CPI inflation to print at 4.9%ooya, rising sharply from 4.1% for January, largely due to base effects. In the food basket, we expect the decline in vegetable prices to slow, resulting in higher food prices. We also expect modestly stronger momentum in core inflation vis-à-vis the last six months' average.

Figure 1: Manufacturing and Services PMI



Source: IHS Markit

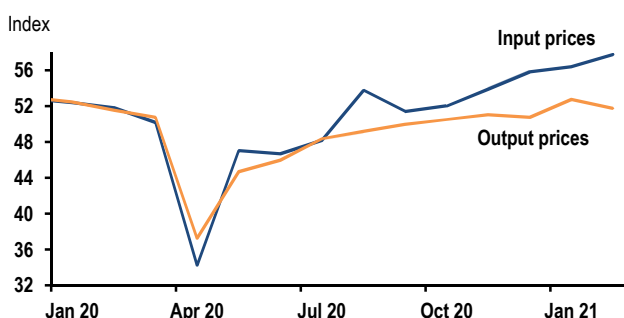
Strong PMI led by services

The composite PMI increased for a second straight month in February, rising by 1.5pts to print at a solid 57.3, the second-highest level in a year. The increase was led by a 2.5 pts jump in services, which printed at 55.3, the highest in a year. The manufacturing index retreated by -0.2pt, but from a high base and still printed at 57.5 (Figure 1). Services thus far have been lagging the recovery and February revealed signs of some catch-up. With the link between mobility (activity) and virus proliferation breaking down as consumer activity continues to normalize, services activity is mean-reverting. Forward-looking

new orders also remained strong across both manufacturing and services. The key, however, is for India to stave off any second wave, in light of the recent increase in cases. That said, the February PMI sounded three cautionary notes:

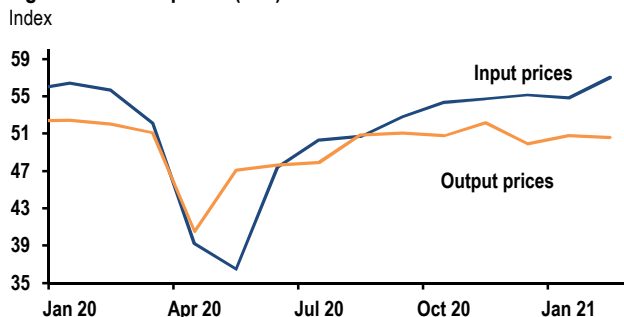
- **Cost-push pressures continue unabated.** Continued cost-push pressures are hurting margins and create inflation risks as demand normalizes. The manufacturing input price index has risen for five successive months and at 58.1 is at the highest level in nearly three years. But the output price index declined 1.0pt to 52.2. Similarly, services input prices rose by 2.2pts to 57.1—the highest level in eight years—while output prices remained flat at 49.9 (Figures 2 and 3). The inability to pass on input price increases likely reflects the headwinds to pricing power from the amount of slack in the system. Input price increases, therefore, are squeezing margins, and create a risk that cost increases eventually could be passed on as demand continues to recover. WPI core inflation has accelerated sharply in the last few months, led by sharp prices in global commodity prices, printing at 5.2%ooya in January up from just 1.8% in October.

Figure 2: Manufacturing prices (PMI)



Source: IHS Markit

Figure 3: Service prices (PMI)

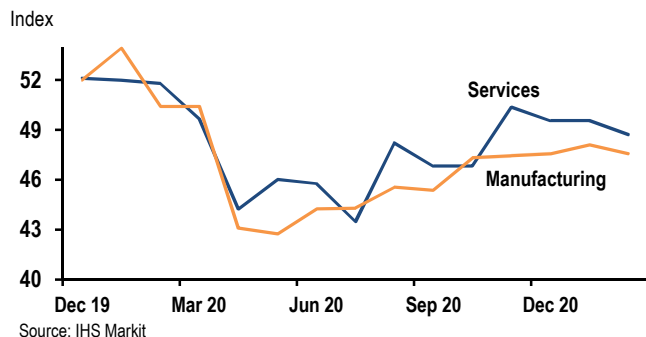


Source: IHS Markit

- **Employment remains under pressure.** One of the defining characteristics of this recovery, which raises questions about its sustainability, is continued scarring in the labor market—as we have pointed out repeatedly. This continues to manifest in the PMI surveys. Both employment indices—

manufacturing (-0.5 points) and services (-0.8 points)—declined in February and both remain in the contraction zone (manufacturing at 47.6 and services at 48.7), despite the recoveries in output and new orders (Figure 4).

Figure 4: Employment (PMI)



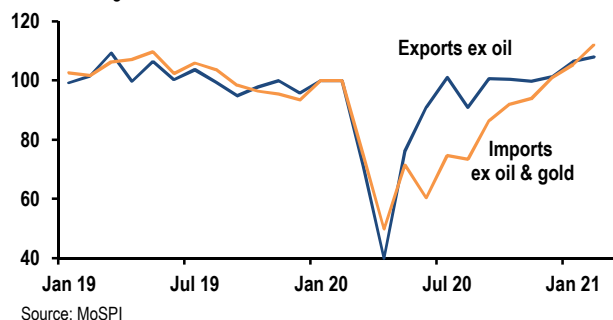
- New export orders soft. We expect the strong global outlook to generate tailwinds for exports. However, there is a large, puzzling divergence between new export orders in Korea and Taiwan, which are booming, and weakness in China's new export orders. New exports orders in India also remained soft (Figure 5). Manufacturing new export orders declined by 1.0pt to 52.0 in February, but services new export orders rose by 2.8pts, albeit from a very low base and—at 41.3—remain far below the expansionary threshold of 50.

February trade data upbeat

Preliminary trade data for February were upbeat with increases in both exports and imports growth. In February, exports ex. oil grew 1.3%/m/m, sa to stand at 108% of the pre-pandemic level, while imports ex. oil and gold jumped 6.3% to 112% of the pre-pandemic level. While exports had led the recovery from the COVID-19 shock, in recent months imports have caught up, suggesting domestic demand has recovered sharply in the last few months. Meanwhile, net oil imports fell to US\$6.5bn in February from US\$7.2bn last month, while gold imports remain strong. The trade deficit narrowed modestly to US\$12.9bn in February from US\$14.5bn last month. Overall this print is consistent with our forecast for a 1.2% of GDP current account deficit in 1Q21.

Figure 5: Exports and imports level

Index, sa, avg. Jan and Feb =100



Data releases and forecasts

Consumers prices

Fri March 12

%oya

	Nov	Dec	Jan	Feb
Overall	6.9	4.6	4.1	<u>4.9</u>
Core-core	5.5	5.3	5.2	

Fri March 12

Industrial production

%oya

	Oct	Nov	Dec	Jan
Overall	4.2	-2.1	1.0	<u>0.5</u>
%m/m, sa	2.1	-1.6	1.7	

Review of past week's data

Composite PMI (Mar 3)

Sa

	Nov	Dec	Jan	Feb
Index	56.3	54.9	55.8	57.3

Source: Central Statistical Organization, RBI, Ministry of Commerce, IHS-Markit, and J.P. Morgan forecasts

US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 Mar Wholesale trade (10:00am) Jan	9 Mar NFIB survey (6:00am) Feb Auction 3-year note \$58bn	10 Mar CPI (8:30am) Feb <u>0.5%</u> Core <u>0.10%</u> Federal budget (2:00pm) Feb Auction 10-year note (r) \$38bn	11 Mar Initial claims (8:30am) w/e Mar 6 <u>725,000</u> JOLTS (10:00am) Jan Announce 10-year TIPS (r) <u>\$13bn</u> Announce 20-year bond (r) <u>\$24bn</u> Auction 30-year bond (r) \$24bn	12 Mar PPI (8:30am) Feb <u>0.4%</u> Core <u>0.2%</u> Consumer sentiment (10:00am) Mar prelim <u>80.0</u> QSS (10:00am) 4Q
15 Mar Empire State survey (8:30am) Mar TIC data (4:00pm) Jan	16 Mar Retail sales (8:30am) Feb Import prices (8:30am) Feb Business leaders survey (8:30am) Mar Industrial production (9:15am) Feb Business inventories (10:00am) Jan NAHB survey (10:00am) Mar Auction 20-year bond (r) <u>\$24bn</u> FOMC meeting	17 Mar Housing starts (8:30am) Feb FOMC statement and projections (2:00pm) and press conference (2:30pm)	18 Mar Initial claims (8:30am) w/e Mar 13 Philadelphia Fed manufacturing (8:30am) Mar Leading indicators (10:00am) Feb Announce 2-year FRN (r) <u>\$26bn</u> Announce 2-year note <u>\$60bn</u> Announce 5-year note <u>\$61bn</u> Announce 7-year note <u>\$62bn</u> Auction 10-year TIPS (r) <u>\$13bn</u>	19 Mar
22 Mar Existing home sales (10:00am) Feb QFR (10:00am) 4Q Richmond Fed President Barkin speaks (10:00am) San Francisco Fed President Daly speaks (1:00pm)	23 Mar Current account (8:30am) 4Q Philadelphia Fed nonmanufacturing (8:30am) Mar New home sales (10:00am) Feb Richmond Fed survey (10:00am) Mar Auction 2-year note <u>\$60bn</u>	24 Mar Durable goods prelim (8:30am) Feb Manufacturing PMI (9:45am) Mar flash Services PMI (9:45am) Mar flash Auction 2-year FRN (r) <u>\$26bn</u> Auction 5-year note <u>\$61bn</u> San Francisco Fed President Daly speaks (3:00pm) Chicago Fed President Evans speaks (7:00pm)	25 Mar Initial claims (8:30am) w/e Mar 20 Real GDP (8:30am) 4Q final KC Fed survey (11:00am) Mar Auction 7-year note <u>\$62bn</u> Chicago Fed President Evans speaks (1:00pm)	26 Mar Personal income (8:30am) Feb Advance economic indicators (8:30am) Feb Consumer sentiment (10:00am) Mar final
29 Mar Dallas Fed manufacturing (10:30am) Mar	30 Mar FHFA HPI (9:00am) Jan S&P/Case-Shiller HPI (9:00am) Jan Consumer confidence (10:00am) Mar Dallas Fed services (10:30am) Mar	31 Mar ADP employment (8:15am) Feb Chicago PMI (9:45am) Mar Pending home sales (10:00am) Feb	1 Apr Initial claims (8:30am) w/e Mar 27 Manufacturing PMI (9:45am) Mar final ISM manufacturing (10:00am) Mar Construction spending (10:00am) Feb Light vehicle sales Mar	2 Apr Employment (8:30am) Mar Good Friday, stock market closed

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 Mar Germany: Industrial production (8:00am) Jan <u>Industry incl constr: 0.2%/m. sa</u> <u>Industry ex constr: 0.3%/m. sa</u> <u>Manufacturing: 0.0%/m. sa</u> <u>Construction: 0.0%/m. sa</u> <u>Energy: 2.0%/m. sa</u>	9 Mar Euro area: Employment final (11:00am) 4Q GDP final (11:00am) 4Q <u>-0.6%/q. sa</u> <u>-2.4%/q. saar</u> <u>-5.0%oya</u> Germany: Foreign trade (8:00am) Jan Italy: Industrial prod. (10:00am) Jan <u>1.2%/m. sa</u>	10 Mar France: Industrial production (8:45am) Jan <u>0.5%/m. sa</u> Italy: PPI (11:00am) Jan	11 Mar Euro area: ECB rate announcement (1:45pm) Mar	12 Mar Euro area: Industrial prod. (11:00am) Jan <u>0.5%/m. sa</u> Germany: CPI final (8:00am) Feb <u>0.7%/m. nsa</u> <u>1.3%oya. nsa</u> <u>HICP: 1.6%oya</u> Spain: CPI final (9:00am) Feb <u>-0.6%/m. nsa</u> <u>0.0%oya. nsa</u> HICP final (9:00am) Feb <u>-0.1%oya. nsa</u>
15 Mar	16 Mar Germany: ZEW bus. survey (11:00am) Mar France: CPI final (8:45am) Feb Italy: CPI final (10:00am) Feb	17 Mar Euro area: HICP final (11:00am) Feb Car registrations (8:00am) Feb Construction output (11:00am) Jan	18 Mar Euro area: Foreign trade (11:00am) Jan Labour costs (11:00am) 4Q Italy: Foreign trade (10:00am) Jan	19 Mar Germany: PPI (8:00am) Feb
22 Mar Euro area: Balance of Payments (10:00am) Jan Belgium: BNB cons. conf. (11:00am) Mar	23 Mar	24 Mar Euro area: PMI mfg prelim (10:00am) Mar PMI serv. & comp prelim (10:00am) Mar EC cons. Conf. flash (4:00pm) Mar Germany: PMI mfg prelim (9:30am) Mar PMI serv. & comp prelim (9:30am) Mar France: PMI mfg prelim (9:15am) Mar PMI serv. & comp prelim (9:15am) Mar	25 Mar Euro area: M3 money supply (10:00am) Feb Germany: GfK cons. conf. (8:00am) Mar France: INSEE bus. conf. (8:45am) Mar Belgium: BNB bus. conf. (3:00pm) Mar	26 Mar Germany: IFO bus. survey (10:00am) Mar Italy: ISAE bus. conf. (10:00am) Mar ISAE cons. conf. (10:00am) Mar Spain: GDP final (9:00am) 4Q
29 Mar	30 Mar Euro area: EC cons. Conf. final (11:00am) Mar Germany: CPI 6 states & prelim (2:00pm) Mar Import price index (8:00am) Feb France: INSEE cons. conf. (8:45am) Mar Spain: CPI flash (9:00am) Mar HICP flash (9:00am) Mar Belgium: CPI (8:00am) Mar	31 Mar Euro area: HICP flash (11:00am) Mar MFI interest rates (10:00am) Feb Germany: Employment (9:55am) Mar Unemployment (9:55am) Mar France: Cons. of mfg goods (8:45am) Feb CPI flash (8:45am) Mar PPI (8:45am) Feb Italy: PPI (10:00am) Feb CPI flash (11:00am) Mar Netherlands: CBS bus. conf. (6:30am) Mar	1 Apr Euro area: PMI mfg final (10:00am) Mar Germany: PMI mfg final (9:55am) Mar Retail sales (8:00am) Feb France: PMI mfg final (9:50am) Mar Italy: PMI mfg final (9:45am) Mar Spain: PMI mfg final (9:15am) Mar	2 Apr France: Monthly budget situation (8:45am) Feb

Highlighted data are scheduled for release on or after the date shown. Times shown are local. Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 Mar Bank lending (8:50am) Feb Current account (8:50am) Jan <u>2100.4 billion yen sa</u> Economy Watchers' survey (2:00pm) Feb <u>34.0</u> Coincident CI prelim (2:00pm) Jan	9 Mar All household spending (8:30am) Jan Employers' survey (8:30am) Jan <u>-2.2%oya</u> M2 (8:50am) Feb GDP 2nd (8:50am) 4Q <u>11.9 %q/q, saar</u> Auction 6-month bill Auction 5-year note	10 Mar Auction 1-year note	11 Mar Corporate goods prices (8:50am) Feb <u>-0.6 %oya</u> Auction 20-year note	12 Mar Business Outlook Survey (8:50am) 1Q Auction 3-month bill
15 Mar Private machinery orders (8:50am) Jan Tertiary sector activity index (1:30pm) Jan	16 Mar IP final (1:30pm) Jan Remarks by Governor KURODA at the FIN/SUM 2021	17 Mar Reuters Tankan (8:50am) Mar Trade balance (8:50am) Feb Auction 1-year note	18 Mar Construction spending (2:00pm) Jan BoJ Monetary Policy Meeting Auction 3-month bill	19 Mar Nationwide core CPI (8:30am) BoJ Monetary Policy Meeting BoJ outlook report BoJ governor Kuroda's press conference
During the week: CAO private consumption index Jan (15-19 Mar)				
22 Mar Coincident CI (2:00pm)	23 Mar Auction 2-year note	24 Mar Corporate service prices (8:50am) Feb PMI manufacturing prelim (9:30am) Feb PMI service prelim (9:30am) Feb Minutes of Jan 20, 21 BoJ Monetary Policy Meeting (8:50am) Auction 6-month bill	25 Mar Auction 40-year note	26 Mar Tokyo core CPI (8:30am) Mar Auction 3-month bill
29 Mar Summary of Opinions at the Monetary Policy Meeting (Held on March 18, 19)	30 Mar Job offers to applicants ratio (8:30am) Feb Unemployment rate (8:30am) Feb Total retail sales (8:50am) Feb Auction 2-year note	31 Mar IP prelim (8:50am) Feb Housing starts (2:00pm) Feb	1 Apr BoJ Tankan (8:50am) 1Q PMI manufacturing final (9:30am) Feb Auto registrations (2:00pm) Mar Auction 10-year note	2 Apr Auction 3-month bill

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Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 Mar	9 Mar	10 Mar Bank of Canada Rate announcement (10:00am) <u>no change</u>	11 Mar Deputy Governor Lawrence Schembri speaks before Restaurants Canada by videoconference (1:30pm)	12 Mar Labor Force Survey (8:30am) Feb <u>200,000</u> (1.1%) Unemployment rate <u>8.6%</u> Wholesale sales (8:30am) Jan <u>5.3%</u> New vehicle sales (8:30am) Jan Capacity utilization (8:30am) 4Q National Balance Sheet (8:30am) 4Q
15 Mar Housing starts (8:15am) Feb Manufacturing sales (8:30am) Jan Existing home sales (9:00am) Feb	16 Mar International transactions in securities (8:30am) Jan	17 Mar CPI (8:30am) Feb Teranet/National Bank HP Index (8:30am) Feb	18 Mar New housing price index (8:30am) Feb	19 Mar Retail sales (8:30am) Jan
22 Mar	23 Mar Deputy Governor Toni Gravelle speaks before CFA Society Toronto by videoconference (1:15pm)	24 Mar	25 Mar CFIB Business Barometer Index (6:00am) Mar	26 Mar
29 Mar	30 Mar Payroll employment (8:30am) Jan	31 Mar Monthly GDP (8:30am) Jan IPPI (8:30am) Feb	1 Apr Building permits (8:30am) Feb Markit manufacturing PMI (9:30am) Mar	2 Apr <i>Good Friday</i> <i>Markets closed</i>

Source: Private and public agencies and J.P. Morgan. Further details available upon request. All existing home sales are tentative.

Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 Mar Brazil: IGP-DI Feb <u>1.91%m/m</u> ; <u>28.95%oya</u> Chile: Trade balance Feb <u>US\$1.2bn</u> CPI Feb <u>0.35%m/m</u> ; <u>3.01%oya</u> Colombia: Consumer confidence Feb	9 Mar Brazil: Services Jan <u>0.2%m/m</u> ; <u>-5.5%oya</u> Mexico: Biweekly core CPI <u>0.10%2w/2w</u> ; <u>3.81%oya</u> Biweekly CPI <u>0.28%2w/2w</u> ; <u>3.65%oya</u> Core CPI Feb <u>0.62%m/m</u> ; <u>3.75%oya</u> CPI Feb <u>0.36%m/m</u> ; <u>3.83%oya</u>	10 Mar	11 Mar Argentina: CPI Feb <u>3.5%m/m</u> Brazil: IPCA Feb <u>0.69%m/m</u> ; <u>-5.02%oya</u> Peru: BCRP meeting Mar <u>0.25% (on hold)</u>	12 Mar Brazil: Retail sales (broad) Jan : <u>1.8%m/m</u> ; <u>-2.8%oya</u> Mexico: IP Jan <u>0.2%m/m</u> ; <u>-4.8%oya</u>
During the week: Mexico: ANTAD same-store sales Feb (8-12 Mar) Peru: Trade balance Jan (9-11 Mar) <u>-US\$1.9bn</u>				
15 Mar Colombia: IP Jan Retail sales Jan Peru: Economic Activity Jan National Unemployment rate Feb Uruguay: Industrial production Jan	16 Mar Uruguay: National Unemployment rate Jan	17 Mar Brazil: BCB meeting Mar	18 Mar Chile: Current Account Balance 4Q GDP 4Q Colombia: Trade balance Jan Economic Activity Jan	19 Mar Mexico: Aggregate supply & demand 4Q
During the week: Uruguay: GDP 4Q (15-19 Mar)				
22 Mar Argentina: Budget balance Feb Paraguay: Monetary Policy Rate Mar	23 Mar Argentina: GDP 4Q Brazil: FGV: consumer confidence Mar	24 Mar Mexico: Biweekly core CPI Biweekly CPI Unemployment Feb	25 Mar Brazil: IPCA-15 Mar Mexico: GDP monthly proxy Jan Retail sales Jan Banxico meeting Mar	26 Mar Argentina: Trade balance Feb Brazil: Current Account Feb FDI Feb Colombia: BanRep meeting Mar Mexico: Trade balance
During the week: Brazil: Tax collections Feb (22-25 Mar) Paraguay: GDP 4Q (26-31 Mar)				
29 Mar	30 Mar Argentina: Economic activity Jan Brazil: IGP-M Mar Chile: BCC Mar Mexico: PS budget balance Feb	31 Mar Brazil: Primary budget balance Feb Chile: Industrial production Jan Retail sales Jan Unemployment Jan Colombia: Unemployment Feb	1 Apr Brazil: IP PMI Manufacturing Mar Trade balance Mar Peru: CPI Mar	2 Apr
During the week: Brazil: Central government budget Feb (29-31 Mar)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

UK and Scandinavia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 Mar Norway: IP Mfg (8:00am) Jan Speech by BoE's Bailey (10:00am)	9 Mar United Kingdom: BRC retail sales monitor (12:01am) Feb Sweden: Industrial production & orders (9:30am) Jan Household cons. (9:30am) Jan Norway: Monthly GDP (8:00am) Jan Regional network survey (10:00am) 1Q	10 Mar Norway: CPI (8:00am) Feb PPI (8:00am) Feb	11 Mar United Kingdom: RICS HPI (12:01am) Feb Sweden: PES unemployment (6:00am) Feb	12 Mar United Kingdom: Monthly GDP (9:30am) Jan <u>-4.4%/m. sa</u> <u>-2.2%3m/3m. sa</u> <u>-8.4%3m/3m. saar</u> <u>Industrial production: -2.4</u> <u>Manufacturing: -2.0</u> <u>Construction: -1.6</u> <u>Services: -5.0</u> Index of services (7:00am) Jan Industrial production (7:00am) Jan Trade balance (7:00am) Jan BoE/NOP Inflation attitudes survey (9:30am) Feb
15 Mar United Kingdom: Rightmove HPI (12:01am) Mar Sweden: CPI (9:30am) Feb Norway: Trade balance (8:00am) Feb	16 Mar	17 Mar	18 Mar United Kingdom: MPC rate announcement and asset purchase target (12:00pm) Mar Norway: Norges Bank rate announcement (10:00am) Mar	19 Mar United Kingdom: Gfk cons. conf. (12:01am) Mar Public sector finances (7:00am) Feb Norway: Building statistics (10:00am) Feb
During the week: CBI industrial trends Mar (18-24 Mar)				
22 Mar	23 Mar United Kingdom: Labor market report (7:00am) Feb	24 Mar United Kingdom: CPI (7:00am) Feb ONS HPI (9:30am) Jan PMI Mfg prelim (9:30am) Mar PMI Services prelim (9:30am) Mar	25 Mar Sweden: Household lending (9:30am) Feb PPI (9:30am) Feb Financial market statistics (9:00am) Feb	26 Mar United Kingdom: Retail sales (7:00am) Feb Car manufacturing (12:01am) Feb Sweden: Retail sales (9:30am) Feb Trade balance (9:30am) Feb Norway: Credit indicator growth (8:00am) Feb Labor directorate unemployment (10:00am) Mar
During the week: CBI distributive trades Mar (24-28 Mar) Nationwide HPI Mar (28-3 Apr)				
29 Mar United Kingdom: M4 & M4 lending final (9:30am) Feb Net lending to individuals (9:30am) Feb	30 Mar Sweden: Consumer confidence (9:00am) Mar Economic Tendency survey (9:00am) Mar Norway: Retail sales (8:00am) Feb	31 Mar United Kingdom: BoP (7:00am) 4Q Business investment final (7:00am) 4Q Real GDP final (7:00am) 4Q	1 Apr United Kingdom: PMI Mfg prelim (9:30am) Mar PMI services prelim (8:30am) Mar BCC quarterly economic survey (12:01am) Norway: PMI Mfg (10:00am) Mar	2 Apr

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Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 Mar Czech Republic: Average real wage (9:00am) 4Q Israel: Current account (1:00pm) 4Q	9 Mar Czech Republic: Trade balance (9:00am) Jan Hungary: CPI (9:00am) Feb <u>3.1%oya</u> Romania: GDP prelim (9:00am) 4Q <u>22.9%q/q,saar</u> South Africa: GDP (11:30am) 4Q <u>12.0%q/q,saar</u> Ukraine: CPI (3:30pm) Feb <u>7.3%oya</u> Kazakhstan: NBK rate decision (3:00pm) Mar <u>On hold: 9.00%</u>	10 Mar Czech Republic: CPI (9:00am) Feb <u>2.2%oya</u> Hungary: NBH MPC minutes (2:00pm) Feb Turkey: Unemployment (9:00am) Dec <u>13.6%</u> South Africa: BER business confidence (12:00pm) 1Q Israel: GDP prelim (1:00pm) 4Q <u>6.3%q/q,saar</u> Egypt: CPI Feb <u>5.0%oya</u> Ghana: CPI Feb	11 Mar Hungary: Trade balance (9:00am) Jan Romania: CPI (9:00am) Feb <u>3.3%oya</u> Turkey: Current account (9:00am) Jan <u>US\$-1.8bn</u> South Africa: Current account and Quarterly Bulletin (11:00am) 4Q Manufacturing output (1:00pm) Jan Serbia: NBS rate decision (12:00pm) Mar <u>On hold: 1.00%</u>	12 Mar Czech Republic: Industrial output (9:00am) Jan Romania: Industrial output (9:00am) Jan Trade balance (9:00am) Jan Russia: Foreign trade (4:00pm) Jan <u>US\$12.5bn</u> Turkey: Industrial output (9:00am) Jan
During the week: South Africa: BER consumer confidence 4Q (11-31 Mar)				
15 Mar Czech Republic: PPI (9:00am) Feb Retail sales (9:00am) Jan Poland: CPI (10:00am) Feb Israel: CPI (6:30pm) Feb Saudi Arabia: CPI (9:00am) Feb	16 Mar Czech Republic: Current account (10:00am) Jan Poland: Core inflation (2:00pm) Feb Current account (2:00pm) Jan Romania: Current Account Jan Russia: Industrial output (7:00pm) Feb Saudi Arabia: GDP final (9:00am) 4Q	17 Mar Poland: Average gross wages and Employment (10:00am) Feb Russia: PPI (7:00pm) Feb South Africa: Retail sales (1:00pm) Jan Mozambique: CBM rate decision Mar	18 Mar Poland: Industrial output (10:00am) Feb PPI (10:00am) Feb Turkey: CBRT rate decision (1:00pm) Mar Egypt: CBE rate decision Mar	19 Mar Poland: Retail sales (10:00am) Feb Russia: CBR rate decision (1:30pm) Mar Retail sales, Unemployment & Investment (7:00pm) Feb
During the week: Angola: CPI Feb (16-27 Mar) Poland: Budget balance Feb (17-31 Mar)				
22 Mar Ghana: BOG rate decision Mar Ukraine: GDP final (3:30pm) 4Q	23 Mar Hungary: Current account (8:30am) 4Q NBH rate decision (2:00pm) Mar Nigeria: CBN rate decision Mar	24 Mar Czech Republic: CNB rate decision (2:30pm) Mar South Africa: CPI (10:00am) Feb	25 Mar South Africa: SARB rate decision Mar Zambia: CPI Feb	26 Mar Turkey: Capacity utilization (9:00am) Mar
29 Mar Hungary: Trade balance (9:00am) Jan Kenya: CBK rate decision Mar	30 Mar Hungary: Unemployment (9:00am) Jan South Africa: Private sector credit (7:00am) Feb Quarterly employment statistics (10:30am) 4Q Budget (2:00pm) Feb	31 Mar Russia: Current account final (4:00pm) 4Q Turkey: Foreign trade (10:00am) Feb South Africa: Trade balance (2:00pm) Feb Kenya: CPI Feb Egypt: GDP 4Q	1 Apr Czech Republic: PMI (9:30am) Mar Hungary: PMI (9:00am) Mar Poland: PMI (9:00am) Mar Russia: Manufacturing PMI (9:00am) Mar Turkey: PMI (10:00am) Mar	2 Apr
During the week: Poland: CPI Feb (30-31 Mar) Kazakhstan: CPI Mar (1-2 Apr) Russia: GDP 1Q (1-2 Apr)				

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Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
8 Mar	9 Mar Australia: NAB business confidence (11:30am) Feb New Zealand: Manufacturing output (10:45am) 4Q NBNZ business confidence prelim (1:00pm) Mar Korea: Current account balance (8:00am) Feb <u>US\$7.5bn</u> Taiwan: CPI (4:00pm) Feb <u>1.6%oya</u> Trade balance (4:00pm) Feb <u>US\$5.6bn</u>	10 Mar China: CPI (9:30am) Feb <u>-0.4%oya</u> PPI (9:30am) Feb <u>1.7%oya</u>	11 Mar <i>Holiday: Indonesia</i>	12 Mar New Zealand: Business NZ PMI (10:30am) Feb India: CPI (5:30pm) Feb IP (5:30pm) Jan Philippines: Trade balance (9:00am) Jan <u>-US\$2.4bn</u> <i>Holiday: Indonesia</i>
During the week: China: Money supply/TSF Feb (9-14 Mar) M2 <u>9.1%oya</u>				
15 Mar China: FAI (10:00am) Feb India: WPI (12:00pm) Feb Trade balance (5:00pm) Feb Indonesia: Trade balance (11:00am) Feb	16 Mar Hong Kong: Unemployment rate (4:30pm) Feb Korea: Export price index (6:00am) Feb Import price index (6:00am) Feb	17 Mar New Zealand: Current account balance (10:45am) 4Q Korea: Unemployment rate (8:00am) Feb Singapore: NODX (8:30am) Feb	18 Mar Australia: Unemployment rate (11:30am) Feb New Zealand: GDP (10:45am) 4Q Indonesia: BI monetary policy meeting Korea: Money supply (12:00pm) Jan Taiwan: CBC monetary policy meeting	19 Mar Australia: Retail sales (11:30am) Jan
22 Mar Hong Kong: CPI (4:30pm) Feb Taiwan: Export orders (4:00pm) Feb Unemployment rate (4:00pm) Feb	23 Mar Singapore: CPI (1:00pm) Feb Taiwan: IP (4:00pm) Feb	24 Mar New Zealand: Trade balance (10:45am) Feb Korea: PPI (6:00am) Feb Malaysia: CPI (12:00pm) Feb Thailand: BOT monetary policy meeting	25 Mar Hong Kong: Trade balance (4:30pm) Feb Philippines: BSP monetary policy meeting	26 Mar Korea: Consumer survey (6:00am) Mar Singapore: IP (1:00pm) Feb
During the week: Thailand: Mfg. Production Feb (26-30 Mar) Vietnam: GDP 1Q (25-31 Mar) Vietnam: CPI Mar (25-31 Mar)				
29 Mar Malaysia: Trade balance (12:00pm) Jan <i>Holiday: India</i>	30 Mar New Zealand: Building permits (10:45am) Feb Hong Kong: Retail sales (4:30pm) Jan	31 Mar China: PMI mfg. (NBS) (9:00am) Feb India: BoP 4Q Korea: FKI Business Survey (6:00am) Feb IP (8:00am) Feb Thailand: PCI (2:30pm) Feb PII (2:30pm) Feb Trade balance (2:30pm) Feb BoP overall balance (2:30pm) Feb	1 Apr China: PMI Mfg. (9:45am) Apr Indonesia: CPI (11:00am) Mar Korea: Trade balance (9:00am) Mar PMI mfg. (9:30am) Mar Taiwan: PMI mfg. (8:30am) Mar <i>Holiday: Philippines</i>	2 Apr Korea: CPI (8:00am) Mar <i>Holiday: Hong Kong, Indonesia, Philippines, Singapore</i>

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Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
6 - 12 March	8 March	9 March	10 March	11 March	12 March
China • Money supply/TSF (Feb)	Germany • IP (Jan) Japan • Econ wtchrs srvy (Feb) United States • Wholesale trade (Jan)	Euro area • GDP (4Q, fnl) Germany • Trade balance (Jan) Japan • GDP (4Q, 2 nd est) Mexico • CPI (Feb) Romania • GDP (4Q) South Africa • GDP (4Q) Taiwan • CPI (Feb) • Trade balance (Feb) United States • NFIB srvy (Feb)	Canada • BOC mtg: no chg China • CPI (Feb) Israel • GDP (4Q) United States • CPI (Feb)	Brazil • CPI (Feb) Euro area • ECB mtg: no chg Peru • BCRP mtg: no chg United States • JOLTS (Jan)	Brazil • Retail sales (Jan) Euro area • IP (Jan) India • CPI (Feb) • IP (Jan) Mexico • IP (Jan) Russia • Trade balance (Jan) Turkey • IP (Jan) United Kingdom • IP (Jan) • Trade balance (Jan) United States • PPI (Feb) • QSS (4Q) • UMich cons snt (Mar, prl)
13 - 19 March	15 March	16 March	17 March	18 March	19 March
	China • FAI (Feb) India • Trade balance (Feb) Japan • Machinery orders (Jan) United States • Empire St srvy (Mar) • TIC data (Jan)	Russia • IP (Feb) United States • Import prices (Feb) • NAHB srvy (Mar) • Retail sales (Feb) • IP (Feb)	Brazil • BCB mtg: +50bp Canada • CPI (Feb) Euro area • New car regs (Feb) Japan • Reuters Tankan (Mar) • Trade balance (Feb) Korea • U-rate (Feb) Singapore • NODX (Feb) United States • FOMC mtg: no chg • Housing starts (Feb)	Chile • GDP (4Q) Euro area • Labor costs (4Q) • Trade balance (Jan) Indonesia • BI mtg: no chg New Zealand • GDP (4Q) Norway • Norges Bank mtg: no chg Poland • IP (Feb) Taiwan • CBC mtg: no chg Turkey • CBRT mtg: +100bp United Kingdom • BoE mtg: no chg United States • Leading indicators (Feb) • Philly Fed srvy (Mar)	Canada • Retail sales (Jan) Japan • BoJ mtg: no chg • Core CPI (Feb) Russia • CBR mtg: no chg

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Economic Research**Global Data Watch**

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Economic Research**Global Data Diary**

March 5, 2021

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Economic Research**Global Data Watch**

March 5, 2021

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